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EU 'should look eastwards'
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A draft law on copyright protection due to be adopted by the European Commission tomorrow has been attacked by the recording industry, which claims it fails to protect artists' rights.
Page 2: Court upholds trademark rights, Page 24

Czech government talks
President Vaclav Havel of the Czech Republic called on Josef Lux, leader of one of the coalition parties in the last government, to start talks on forming a new administration. Page 3

British-Irish peace call
The leader of the pro-British Ulster Unionist party, David Trimble, urged the government of the Republic of Ireland to strengthen the relationship between the republic and the UK as part of a settlement at the Northern Ireland talks. Page 10

Lower rates for Japanese
The cost of borrowing money on international markets for Japanese banks fell after some politicians suggested the government should sell US bonds to help the banking sector. Page 8; Bonds, Page 26

Ramos anoints successor
Philippine President Fidel Ramos surprised political observers by endorsing Jose de Venecia, speaker of the lower house, as his successor in presidential elections next May. Page 8; Shining example, Observer, Page 15

Refugees with nowhere to run
Reluctance by rich and poor countries alike to accept people fleeing persecution and conflict has left growing numbers of refugees with nowhere to run, says the UN refugee agency. Page 6

Polish road funds needed
An ambitious toll road programme could stall unless the Polish government decides soon to provide more money or guarantees. Page 2

BUSINESS NEWS

Volvo unveils three-year strategy to boost growth

Volvo, the Swedish automotive group, has unveiled a three-year plan to cut purchasing costs, slim management and lift productivity by 5 per cent a year. Page 17; Interview with Leif Johansson, Page 19

Yukos, the giant Russian oil company has spent $800m in a privatisation auction to acquire a 45 per cent stake in Eastern Oil. It has also bought shares in the market to take its shareholding above 50 per cent. Page 17

London's weekly tea auction, held since 1834, will cease early next year, extinguished by international competition and computer screens. Page 16; Commodities, Page 28

ABN Amro, the Dutch bank, is to become a member of the UK's "Chaps" (Clearing House Automated Payment System) high value payments system. Page 10

Heidelberger Druckmaschinen, the German printing press group, saw its shares rise more than 4 per cent on their debut on the Frankfurt stock exchange yesterday. Trading opened at DM100, compared with a DM96 offer price; the shares closed at DM100.50. Page 19

Société Marseillaise de Crédit, the French state-owned bank, has seen six top executives resign after last week's appointment of new management. Page 19

AT&T's new chairman, Michael Armstrong, has cut his company's ties with DirecTV, the satellite television business he once headed, ending a relationship intended to spearhead the US telecommunications company's push into television. Page 17

Dow Jones and NBC, owned by General Electric, are to announce a global television and internet joint venture. The new alliance will be branded CNBC, a service of both NBC and Dow Jones. Page 22

Interbrew of Belgium and Venezuela's Cisneros Group have inaugurated a $150m brewing plant in Venezuela, the first in a new joint venture that hopes to expand aggressively in the Latin American market. Page 21

George Walker, the former British boxer declared bankrupt with the collapse of his Brent Walker empire, has signed a $4m deal to open betting shops across the rump Yugoslavia republics of Serbia and Montenegro. Page 23

API, the UK packaging and coatings group, said the strong pound, rationalisation and destocking by the tobacco industry would affect profits for the current first half, as it reported a 29 per cent rise in full-year pre-tax profits. Page 23

Daewoo, South Korea's fourth-largest conglomerate, has agreed to buy 53.5 per cent of Ssangyong Motors for an amount still to be negotiated. Daewoo will assume Won2,000bn ($1.6bn) of the troubled carmaker's Won3,400bn debts. Page 17; Lex, Page 16

Daiwa Securities, the Japanese broker, has announced the largest share buy-back to date in the country's financial sector. The company said it planned to spend up to Y25bn ($192m) purchasing up to 50m shares between now and next June. Page 21

Toyota, the Japanese carmaker, will resume production in Thailand in January after suspending operations for nearly two months because of the sharp fall in demand following the Thai currency crisis. Page 20

Deal will cost 13,000 jobs

SBC comes out on top as UBS merger boosts shares

By William Hall in Zurich and Clay Harris in London

Swiss Bank Corporation has emerged on top in its merger with the larger Union Bank of Switzerland, a deal that will create the world's second biggest bank in terms of assets.

The merger announced yesterday will cost 13,000 jobs and lead to a pre-tax restructuring charge of SFr7bn ($4.9bn).

The new bank, to be called United Bank of Switzerland, will also be the world's largest global asset manager, in charge of funds approaching $1,000bn.

Both banks' shares jumped sharply.

The deal is a thinly disguised takeover by SBC even though UBS shareholders will own 60 per cent of the merged bank's shares, and its initials survive in the new name. Mathis Cabiallavetta, 52, UBS's chief executive, will be chairman but Marcel Ospel, 47, his SBC counterpart, will be chief executive. Three of the four core businesses will be headed by SBC executives.

Nearly a quarter of the banks' 56,000 employees will lose their jobs, with a 7,000 cut in Switzerland accounting for more than half the reduction.

Georges Blum, SBC chairman, said neither of the banks had the individual strength to succeed in the long haul, particularly in comparison with US competitors. "To defend and build our market share, we need to make enormous investments. Together, our chances of success are significantly greater."

Both acknowledged that Switzerland's banks had lost ground against competition. The merged bank was designed to be a "strong new contender" in international banking.

The new bank aims to raise its net profit to SFr11bn and its annual return on equity to 20 per cent by 2002, compared with this year's projected figures of 13 per cent for UBS and 15 per cent for SBC. It expects annual savings of SFr3.5bn.

Investment banking activities will be centred on SBC's Warburg Dillon Read subsidiary under its chief executive, Johannes de Gier. Mr Cabiallavetta said: "The overwhelming reduction will come from our side." But he said: "Regardless of where the people come from, the best will be taken."

Mr Ospel said any serious approaches for surplus parts of the UBS investment banking business would be entertained, but such disposals were not part of the banks' strategy.

Mr Cabiallavetta told analysts in London that once the merger was completed, he would not rule out a US investment banking acquisition.

A priority area for profits growth is private banking, where the minimum threshold for customers' wealth will be increased to SFr1m. They will also try to carve out a "premium retail" segment outside Switzerland for customers with assets of SFr100,000 to SFr1m.

The merger is subject to approval by Swiss regulators and the European Commission. Shareholders will vote on the deal on February 3 and 4. The new group will have its headquarters in Zurich, UBS's current home, but the three of its four core divisions will be based elsewhere.

UBS shareholders will get one new share for each registered share, and five for each bearer share. SBC shareholders will get 14 new shares for every 13 they own. UBS bearer shares soared 11 per cent, by SFr215 to SFr2,165, while SBC added more than 5 per cent, adding SFr26 to SFr472.5.

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Editorial comment, Page 15
SBC grabs top jobs, Page 18
World stocks, Page 38

Gore hints at global warming compromise

Al Gore, US vice-president, said yesterday he was 'cautiously optimistic' that a deal to curb emissions of greenhouse gases could be reached at the UN global warming conference in Kyoto. Mr Gore said he had instructed the US delegation to 'show increased negotiating flexibility'. Report, Page 16 Reuters

Ex-minister tells Russia to get tough on tax dodgers

Fyodorov calls for revenue collection improvements

By John Thornhill in Moscow

The Russian government should launch bankruptcy proceedings against the 100 biggest corporate tax debtors and prosecute a handful of tax-dodging "stars" to raise additional revenue, Boris Fyodorov, the former finance minister, said yesterday.

Mr Fyodorov, who has been repeatedly tipped to take over as Russia's chief tax collector as part of a forthcoming "fiscal action plan", said the government had to start scaring people to pay taxes if it wanted to overcome its budgetary crisis.

The government should therefore declare the heavily-indebted Zil car plant bankrupt and put Alla Pugacheva, the country's most famous pop singer, in prison if it is proved she has not paid her taxes, Mr Fyodorov said. Such measures would show that the government was serious about preventing tax evasion and could raise the government's tax take by 10-20 per cent.

"We have never for a single moment in the past seven years had a politician in this job – rather than a bureaucrat – who could demand things and act tough," Mr Fyodorov said. "Who is afraid of [Alexander] Pochinok? [the current head of the state tax service]," Mr Fyodorov asked.

The appointment of Mr Fyodorov would certainly be warmly welcomed by international financial institutions, which have been pressing Russia to improve revenue collection and overhaul its primitive and punitive tax regime.

"You have to use both the stick and the carrot," Mr Fyodorov said in an interview with the Financial Times. "You should hit people hard but you should always give them some incentives to act properly."

Mr Fyodorov left little doubt about his desire to return to government. He said he was "bored to death" with parliament and could only work as a non-executive chairman of a bank while he remained an MP.

"It is a question of what you want to do with your life. Do you just want to hit your head against a brick wall or do something concrete which is very helpful to your country?" he said.

Mr Fyodorov said he had recently met Victor Chernomyrdin, prime minister, to discuss the current financial crisis and to apologise for some intemperate remarks he had made in the past. But he stressed he had not received any job offer from Mr Chernomyrdin – although this had been implicit in the conversation.

"I excused myself for some of the personal attacks I made on him. I did not stop criticising the government but I accepted that some of my remarks were insulting," he said.

Mr Fyodorov added that Russia's tax inspectorate and tax police, currently divided between the finance and interior ministries, would eventually have to be unified, and extra resources were needed to improve the quality of tax administration.

France seeks broad Emu membership

By Robert Graham and Andrew Jack in Paris

France is pressing for a broad-based membership of European economic and monetary union to avoid the single currency being restricted to a group of five or six countries at the outset.

The French approach to Emu was spelled out, ahead of this week's summit of European Union leaders in Luxembourg, by Lionel Jospin, the prime minister, in an interview with the Financial Times – the first with a foreign paper since he took office six months ago.

He also said he did not wish a European policy to evolve round a Franco-German axis to the exclusion of other countries.

"When you take the historic step of integrating Europe, you don't do it with a small group of five or six countries," he said. He envisaged "most European countries will participate at the outset".

In his Socialist Party's election manifesto, he insisted that Italy and Spain take part in the first wave of countries joining the euro, the name for the proposed single currency. He appeared confident that both these

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France's new champion, Page 15

Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8,123.77	(-25.36)
NASDAQ Composite	1,650.68	(+16.78)
Europe and Far East		
CAC40	2,932.47	(+22.38)
DAX	4,223.36	(+52.38)
FTSE 100	5,187.4	(+44.5)
Nikkei	16,131.57	(-292.91)
US LUNCHTIME RATES		
Federal Funds	5½%	
3-mth Treas Bills: Yld	5.328%	
Long Bond	100½	
Yield	6.109%	
OTHER RATES		
UK: 3-mo Interbank	7¾%	(same)
UK: 10 yr Gilt	105.64	(105.211)
France: 10 yr OAT	100.88	(100.48)
Germany: 10 yr Bund	104.55	(104.13)
Japan: 10 yr JGB	109.79	(109.72)
NORTH SEA OIL (Argus)		
Brent Dated	$17.785	(17.985)

GOLD		
New York: Comex		
	$287.9	(288.4)
London		
	$287.85	(288.05)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.6488	
DM	1.7885	
FFr	5.9870	
SFr	1.45625	
Y	130.55	
London		
£	1.6479	(1.6568)
DM	1.7884	(1.7828)
FFr	5.9851	(5.9659)
SFr	1.4528	(1.4396)
Y	130.56	(130.125)
Tokyo close		Y 129.70
Sterling		
DM	2.9471	(2.9538)

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EMERGING MARKETS

Plans for pan-European conference receive blow ahead of EU summit in Luxembourg

Greece threatens to block meeting

By Lionel Barber in Brussels

Greece last night threatened to block plans for a pan-European conference, upsetting hopes for a compromise on the European Union's plans for eastern enlargement at this week's summit in Luxembourg.

The Greek threat risks disrupting a difficult balancing act for the EU as it seeks to accommodate central European countries on a fast-track for membership, disappointed candidates, and Turkey's long-shot application to join the club. It added to a sombre mood at yesterday's EU foreign ministers' meeting in Brussels, which revealed deep divisions between northern and southern member states over the financing of enlargement.

Greece's action could jeopardise the EU's delicate negotiations with Turkey, which aim to coax Ankara into supporting efforts to reach a settlement in the divided island of Cyprus. EU leaders had planned to declare at the Luxembourg summit on Friday that Turkey is eligible for membership, an unprecedented step.

The Franco-German backed European conference is viewed as a key element in the package on eastern enlargement. It would take place in February 1998, before accession negotiations with a favoured group of applicants. All 15 EU member states, the 10 central and eastern European applicant countries, Cyprus and Turkey would be invited to attend.

Theodoros Pangalos, Greek foreign minister, said last night Athens supported the principle of opening accession negotiations with all 10 central Europeans without discrimination. Such an approach would render the idea of a pan-European conference including Turkey superfluous. The majority of countries, however, endorsed the European Commission judgment that the Czech Republic, Hungary, Poland, Estonia, Slovenia and Cyprus were ready to open negotiations to join the EU, most likely starting at the end of March.

However, a Danish-Swedish proposal for reassuring those left behind – Bulgaria, Latvia, Lithuania, Romania, and Slovakia – seemed likely to be adopted at the summit. Under the plan, all eastern applicants would be included in a so-called "screening process" to see how far candidates comply with the *acquis communautaire*, the obligations of membership including compliance with the single market.

Robin Cook, British foreign secretary, said Britain supported an "inclusive" process while keeping faith with those countries who made active progress toward membership.

Despite his hard line stand, Mr Pangalos was careful to set out conditions for participation in the pan-European conference, including demands for a free press, acceptance of international law and respect for human rights.

EU expansion urged to help support Nato

US ambassador decries lack of co-ordination about policies on enlargement to the east

By David Buchan and Alexander Nicoll in London

The European Union needs to expand eastwards if the planned enlargement of the Nato alliance to include eastern European countries is to be a success, Robert Hunter, US ambassador to Nato, said yesterday.

"Unless the EU does its job" in bolstering economic and political stability in new Nato member countries, "we are going to fail", Mr Hunter said in an interview with the Financial Times as European leaders prepared for decisions on admitting new EU members later this week.

Mr Hunter, retiring after 4½ years in Brussels, recalled Nato was set up after the second world war to provide confidence that European democracy and economic prosperity could be re-built in a secure environment. Nato was fulfilling a similar role now for eastern Europe after the Cold War. Although Mr Hunter acknowledged Nato expansion was easier because it was cheaper and US-led, he decried the lack of co-ordination between the EU and Nato and noted they had been described as "two institutions based in the same city but which behave as if they were on different planets".

Mr Hunter displayed near-total confidence that Nato forces, including American troops, would stay on in Bosnia after the June 1998 expiry of their present mandate, although he noted that the US government had made no decision on staying.

Discussion on a follow-on force would centre on what non-military tasks could be carried out by people other than Nato troops, and especially on policing.

He warned Bosnians against depending on "an open-ended engagement of outsiders" and said Nato's mission should change to reflect that "the big problems are in the civilian arena, the building of institutions, return of refugees and at some point dealing with war criminals".

Strong support for keeping troops in Bosnia came yesterday from British members of parliament. The House of Commons defence committee recommended that a new mandate "should be based on a three-year plan and be fully integrated with a comprehensive strategy for civilian implementation."

● Large parts of the military infrastructure of Poland, Hungary and the Czech Republic are obsolete and their levels of combat readiness and training are well below Nato standards, according to a report in the US publication Defense News, which quoted classified Nato documents.

Nato officials, confirming it had found shortcomings, said commonly funded costs of expansion could be contained within the $1.3bn estimated by the alliance and said improvements in the armed forces of the three countries, due to join Nato in 1999, would have to be funded by them.

A Bosnian Moslem boy collects water in Brod, north of Tuzla, under the watchful eye of US troops providing security for refugees returning to their pre-war homes AP

Global turmoil 'could upset run-up to Emu'

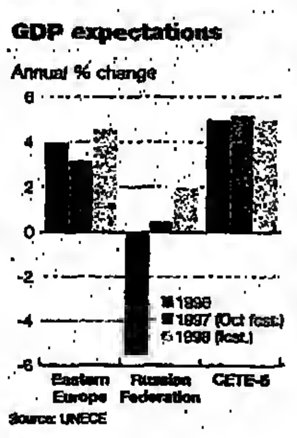
By Frances Williams in Geneva

Global financial turmoil could upset the economic convergence of European Union member states next year, threatening the successful introduction of european monetary union (Emu), the United Nations Economic Commission for Europe says in its latest economic bulletin.

The crisis in east Asia, and an expected tightening of monetary policy in the US, were likely to affect some European nations more than others, which could provoke conflict among EU members as to the best response to changing economic prospects.

"This would not be a favourable environment for the introduction of a single currency ... at the beginning of 1999," the UN/ECE comments. Current forecasts suggest economic growth in western Europe as a whole could pick up slightly to just under 3 per cent next year from an estimated 2.6 per cent this year, but the outlook was clouded by uncertainty about the effects of global financial turmoil.

The run-up to Emu would involve a convergence of short-term interest rates to about 4-4.5 per cent next year, equal to a tightening of monetary policy in France, Germany and several other countries. Given low inflation and the risk to economic activity of the crisis in international financial markets, "such a tightening would not be appropriate."



In a special analysis of the potential impact of global financial disturbances on the countries of eastern Europe, the UN/ECE identifies the strengthening of the banking system as a priority for governments in the region.

Underlying structural weaknesses of the domestic banking and financial sectors were a main cause of the east Asian débâcle.

"Due to their immature markets and weak institutional structures, the transition economies are especially vulnerable to such external shocks and pressures."

Risk factors include over-dependence by some countries on volatile short-term capital inflows to finance external imbalances and excessive real exchange rate appreciation as in the Czech Republic, Slovakia and Slovenia.

IBM takes a cautious line on switch to euro

Preparing for Emu

International Business Machines, the multinational information technology group, will take a different approach in its preparations for European economic and monetary union from other leading European companies.

While such companies as Philips of the Netherlands, and Daimler-Benz and Siemens of Germany have made commitments to switch over to the euro in 1999, IBM has chosen January 2001 as its conversion date.

The delayed switch-over suggests that multinational companies with corporate headquarters outside the European Union favour a staggered approach in their Emu preparations.

A key reason is the priority they give to the year-2000 problem – the inability of many computer systems to cope with the change of year from 1999 to 2000.

Companies have latitude over the timing of the switch-over date for Emu because of the scheduled transition period from 1999 until 2001, during which the euro, the future single currency, will co-exist with national currency denominations.

Commercial and private transactions during that period will be subject to the rule of "no prohibition – no compulsion", which gives people and companies the free choice of using either euros or national denominations.

But the rule also gives rise to a problem for companies: they face the agonising choice of picking the right date to switch over their internal systems.

Peter Cruttenden, director of process management at IBM's European headquarters in Paris and the company's Emu team leader, said IBM could respond to the "no prohibition – no compulsion rule" in two different ways:

■ Supplier and customer agree on the denominations of their transaction in advance. This means companies must handle dual transactions throughout their operations. Every transaction carries a "shadow" somewhere in the system. While this is the most customer-friendly approach, it is also the most expensive, because it requires the greatest administrative and technical overhead.

■ The alternative is a system of mixed inputs. Companies accept euro payments, make a once-and-for-all currency conversion, and leave the rest of their internal systems on national denominations, until they switch-over their entire systems.

The second approach is cheaper because companies do not need to deal with dual data at every stage in the process, except at the input stage. It also gives companies the flexibility to choose their own Emu conversion date.

The disadvantage of this system is that the companies will need to deal with euro data before they have converted their internal systems. Since computers may not be able to handle such transactions, manual inputs may be required.

Mr Cruttenden said the Emu switch-over in its cheapest version would still be 20 per cent more expensive than the repair of the year-2000 problem.

Experts have put the total cost to industry of sorting out the millennium bug at around $300bn to $400bn world-wide. The aggregate cost of switching systems to prepare for Emu is widely estimated at around $150bn.

Mr Cruttenden, however, believes that the estimate for Emu vastly understates the real costs of the switch-over. IBM estimates that around 80 per cent of its information technology applications will be affected by Emu.

"You cannot postpone the year-2000 problem," Mr Cruttenden said, "but Emu allows you some flexibility. It forces people to set priorities."

IBM will be choosing the second option: The company will be able to handle mixed inputs until the end of the year 2000. During the two-year period 1999-2000 customers and suppliers will have the freedom to settle transactions in either national denominations or the euro.

Mr Cruttenden added that IBM would prefer purely domestic transactions during that period still to be conducted in national currencies.

IBM has also decided to continue to use the US dollar as its in-house currency even in its European operations.

By contrast, Daimler-Benz and Siemens recently announced far more aggressive euro conversion strategies. Both will use the euro as sole in-house currency from 1999. Customers and suppliers – and possibly even employees – are expected to accept or render payments in euro from the conversion days onwards. This may even be true of EU-based suppliers based outside the Emu membership zone, for example in the UK or Sweden.

Wolfgang Münchau

Industry attacks copyright draft

By Emma Tucker in Brussels

A draft law on copyright protection, due to be adopted by the European Commission tomorrow, has been attacked by the international recording industry for failing to protect the rights of copyright holders such as musicians, publishers and authors.

IFPI, representing more than 1,300 record companies worldwide, says poor drafting has created a loophole allowing hardware manufacturers to sell devices facilitating illegal copying and piracy. The devices would allow people to circumvent encryption designed to protect music distributed "on-line" in a digital form from illegal copying, the organisation says.

IFPI is one of several lobby groups recently criticising the commission's copyright initiative. Software and hardware manufacturers, rights holders, telecoms companies and service providers, all with different demands, have complained about the contents.

"There are so many competing interests that whatever we do someone will be unhappy," the commission says. "We think we have found the right balance."

The directive, which aims to establish EU-wide rules for copyright protection in the digital age, faces hundreds of changes before it becomes law – which could take well over a year. Once adopted by the commission, it will be passed to the member states and the Parliament for amendment.

Eacem, the European Association of Consumer Electronics Manufacturers, claims the protection rights in the directive are too restrictive and could deny the consumer a normal use of their audio and video recorders.

"The current proposals entirely fail to strike a balance between the objective to prevent piracy and the legitimate aspirations of European citizens to have reasonable use of and access to information and culture in the Information Society," said Eacem.

But IFPI argues that the result of the directive would be "to undermine the ability of the music and other rights holding industries to use the encryption and other technical measures that, in the information society, will be the basic copyright management tool by which those industries trade with millions of consumers".

Polish road funds needed

By Christopher Bobinski in Warsaw

An ambitious toll road programme could stall unless the Polish government decides soon to provide more money or guarantees, although under original plans the scheme was to have been funded primarily by the private sector.

Under plans mooted four years ago, state funding for the construction of 2,600km of highways was to have been limited to 15 per cent of the cost, which was then predicted to be $8bn over 15 years. The remaining funds were to have been arranged by private commercial ventures, which are first to build the roads and then to operate them.

Last March Autostrada Wielkopolska (AW), a joint venture grouping local banks, companies and foreign road builders such as Strabag, was granted a concession to build a 364km stretch of the Warsaw-to-Berlin motorway. Now its efforts to raise funds from banks to finance the $1.1bn project are suffering delays as the consortium has found that it cannot proceed without increased government support.

The EBRD is understood to have told Leszek Balcerowicz, Poland's new finance minister, that the government will have to provide around Ecu150m ($168m) in new financing for the initial A2 stretch if the London-based bank is to back the scheme.

The European Investment Bank (EIB) insists that the road can only be built if the Polish government decides to provide credit guarantees for loans.

The EIB has said it is ready to lend up to Ecu1bn to Poland's overall road building programme if government guarantees can be obtained.

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NEWS DIGEST

Serbia faces fourth vote

Serbia will have to go to the polls for a fourth time to find a successor to President Slobodan Milosevic after Sunday's election, which produced no outright winner, officials said yesterday.

Preliminary results showed that Milan Milutinovic, the candidate of the ruling Socialists, did better than expected, winning 41.5 per cent of the vote. Mr Milutinovic, the current Yugoslav foreign minister, will contest a run-off on December 21 with Vojislav Seselj, leader of the ultra-nationalist Serbian Radical party who polled 33 per cent. Five other candidates trailed well behind.

Mr Seselj, who has been denounced as a fascist by the US envoy to the Balkans, defeated the previous Socialist candidate two months ago but was denied victory by a turnout that fell short of the required 50 per cent.

Mr Milosevic's proxy could be poised for victory but once again Serbia might be left without a president if voters stay at home in large numbers. This is no serious problem for Mr Milosevic, now the president of federal Yugoslavia, who has installed a loyal ally as speaker of the Serbian parliament, a postion that includes the powers of acting president. *Guy Dinmore, Belgrade*

■ DEUTSCHE POST

Move to save liberalisation

A last-ditch effort was launched yesterday by Germany's governing coalition to save its step-by-step liberalisation of postal services. The collapse of talks over its proposed post industry bill had left the country facing the prospect of having no post law from January.

Late on Sunday, negotiations failed to bridge differences with the opposition Social Democratic party (SPD) over the liberalisation bill which would protect Deutsche Post's monopoly for standard letters under 100g for a transitional period.

Existing legislation expires at the end of the year. If a deal is not reached tomorrow, when a parliamentary conciliation committee meets, Deutsche Post could in theory face unlimited competition. But, in practice, the threat of subsequent retroactive legislation is likely to put off potential new investors. The SPD wants to stop rival post companies employing low-paid workers, particularly those who earn less than DM610 ($345) a month and consequently pay no social insurance.

The government has already said it will compromise on the weight limit for letters. In a further concession, Peter Hintze, secretary general of Chancellor Helmut Kohl's Christian Democratic Union, indicated yesterday that compromise might be possible on general limits on "DM610 jobs". *Ralph Atkins, Bonn*

■ POLISH POLITICS

Solidarity sets up new party

Marian Krzaklewski, the head of Solidarity Electoral Action (AWS), the coalition which won Poland's parliamentary elections in September, has launched a new Christian Democrat party to act as the Solidarity trade union's political wing.

The AWS Social Movement will propagate "basic Christian principles in education, the economy and public life," Mr Krzaklewski said yesterday. He added that 10,000 people were working to organise the movement, which would have 200,000 members by the middle of next year.

The move is designed to discipline the AWS parliamentary caucus, which controls 200 seats in the 460 seat parliament, by uniting the many small groups in the AWS coalition. It is also aimed at winning local government elections next year and providing a political base for an expected bid for the presidency by Mr Krzaklewski in 2000.

The registration of the new party comes soon after Lech Walesa, former president and Solidarity leader, registered his own political party, called the Christian Democracy of the Third Polish Republic. Mr Walesa, who is thought to be considering running for the presidency in three years' time, denies his movement will be a rival to Mr Krzaklewski's party. *Christopher Bobinski, Warsaw*

■ ITALIAN BUDGET

Opposition plans new attack

Italy's centre-right opposition, encouraged by government concessions over its plans to cut pensions spending in next year's budget, is promising a tough attack on moves to reduce the pensions rights of self-employed workers.

As the government launches the final leg of its attempt to get the 1998 budget passed before the end of this year, senior opposition politicians have said they will seek further concessions, demanding that the age at which self-employed workers can retire should be reduced from 58 to 57.

The opposition has also said it will table an amendment in parliament that commits the 1999 budget to a range of tax reductions. These, it says, can be funded by cuts in debt repayments that are expected because of the anticipated reduction in interest rates next year.

James Blitz, Rome

■ GERMAN ARMY

Row over 'Nazi' lecture

Volker Rühe, the German defence minister, suspended a lieutenant-general yesterday and ordered disciplinary proceedings against a colonel over revelations that a convicted neo-Nazi was allowed to address soldiers at an elite military academy.

Mr Rühe acted in response to a preliminary defence ministry report into an invitation to Manfred Röder, who served eight years in jail for a racist bomb attack in the 1980s, to give a talk in 1995 at the academy in Hamburg.

The affair, revealed by Der Spiegel magazine, is the latest and potentially the most damaging in a string of incidents linking the German armed forces with right-wing extremism. It damaged the army's efforts to distance itself from the aggressive militarism of Germany's Nazi past, and prompted opposition calls for Mr Rühe's resignation.

Mr Rühe told a news conference said there was nothing to suggest that those responsible for Mr Röder's invitation were aware of his background or had neo-Nazi sympathies. He said the talk by Mr Röder, a 68-year-old former lawyer, whom he described as "one of the most disgusting neo-Nazis", had caused severe damage to the reputation of the army and the Hamburg academy.

Reuters, Bonn

■ BASQUE CONFLICT

Eta prisoners moving

The Spanish Interior Ministry announced yesterday that it would transfer 15 jailed members of the armed Basque separatist movement Eta to prisons closer to home. The prisoners in question are currently in jails in Spain and its overseas territories. The grouping together of jailed Eta members has been one of the organisation's long-standing demands.

After a meeting last month with representatives from Basque political parties, Jaime Oreja, interior minister, promised to implement a "more active penal policy". Yesterday's announcement came days after the jailing of 23 leaders of Eta's political wing, Herri Batasuna. They had been sentenced to seven years for collaborating with an armed organisation. *AFP, Madrid*

Accord will break grip of monopolies in many countries by allowing big industrial users to shop around for supplies

Third of EU natural gas market to be liberalised

By Neil Buckley in Brussels

European Union energy ministers last night agreed to open over a third of the EU's $100bn-a-year natural gas market to competition, breaking the grip of monopolies in many countries by allowing big industrial gas users to shop around for supplies.

The accord would need each state to open at least 20 per cent of its gas market to competition within two years of the new law being adopted, probably next year. Taking into account the different size and structura of national markets, officials said the deal would result in just over 33 per cent of the total EU gas market being liberalised by early next decade.

The agreement follows a similar deal oo electricity last year, and will allow a single market in energy to become a reality.

The deal was less ambitious than supporters of liberalisation, such as the UK and the Nordic states, had hoped, after France's energy minister Christian Pierret took a hardline stance aimed at protecting its gas monopoly, Gaz de France.

Mr Pierret called the deal "favourable for French interests and for the process of European construction".

Bnt Christos Papoutsis, EU energy commissioner, said it would lead to lower gas prices for industry and, by cutting costs for gas-fired power generators, lower electricity prices.

John Battle, UK energy minister, said liberalisation gained its own momentum once markets were opened. "[Liberalisation of] electricity and telecoms has shown us that once the door is open, things move faster than expected."

The European parliament can still propose changes to the plan, but ministers were optimistic it could be adopted before the end of the UK presidency of the EU next June.

Under the plan, EU states must allow gas-fired electricity generators and users consuming more than 25m cu m a year to benefit from competition. If that does not result in at least 20 per cent of their total market being liberalised, they must lower the consumption threshold to ensure the minimum percentage is met.

But member states with a large proportion of industrial users, for wbom applying the same consumption threshold would mean liberalising a larger proportion of their total market, would be allowed to limit market opening to 30 per cent, though states are free to exceed this percentage.

The consumption thresbold would fall to 15m cu m after five years, and 5m cu m after 10 years. The minimum percentages of market opening would rise to 28, then 33 per cent after tbe same intervals.

Ukraine miners struggle to cope with bleak future

Britain is encouraging workers to re-adjust in the face of pit closures, writes Charles Clover

The "Social Adaptatioo Centre" at the Myshketovskaya coal mine in south-eastern Ukraine consists of two desks, some well-meaning staff and several optimistic posters on the walls.

"You Don't Know What to Do Next? Come to the Centre!" commands one poster.

Outside, Myshketovskaya is a quiet sea of mud and scrap iron where 500 miners once worked.

Last March, it became one of 28 coal mines in Ukraine earmarked for closure as the government tries to economise on the nearly $1bn it pays in subsidies to the industry every year.

Myshketovskaya is part of the Doohass coal hasin, which at the beginning of this century was one of the world's most prolific coal regions. It is now largely depleted and hundreds of thousands of jobs are threatened.

At many of the mines, production costs have risen rapidly as coal veins run out.

Up to 90 of Ukraine's 240 mines are loss-making.

in addltioo to costing the government some 5 per cent of its yearly hudget in subsidies, the coal industry has accomulated dehts equivalent to $3.2bn, or 7 per cent of gross domestic product.

As a result, a decision was taken last year to liquidate the uoprofitable mines, while the rest are to be privatised.

Some 5,000 miners lost their jobs as a result of the closures and only 446 of them have found new work.

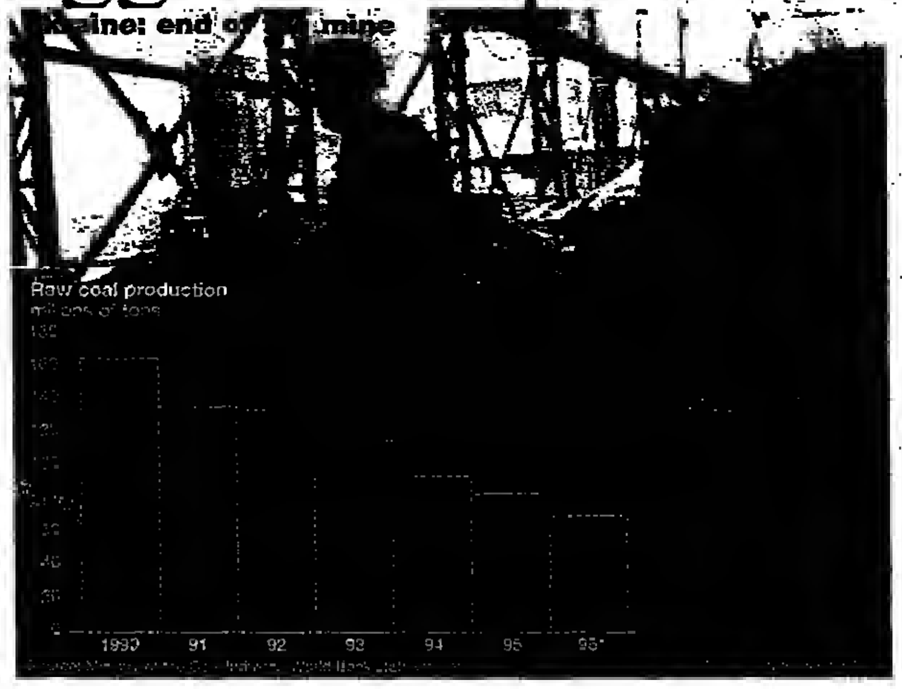
The Social Adaptation Centre, sponsored by the UK Know How Fund, is one of a nnmher of initiatives intended to help alleviate the dislocations caused hy the mind closures.

One of the visitors to the centre last week was Britain's international development minister, George Foulkes. As an MP from a coal mining district in Scotland which 10 years ago went through the same trauma, Mr Foulkes had some idea of what Myshketovskaya's families are going through.

He said that with the proper resources and training, mining communities could pull through.

"Not long ago I went to visit an electronics factory in my constituency and found a lot of ex-miners. Imagine, men involved in one of the heaviest industries have now heen retrained in electronics," be said.

Ex-miners complain that the Ukrainian governmeot has not been doing its share in helping the industry restructure.



Ukraine: end of ... mine

For example, while the coal sector received $500m from this year's budget in the first eight months of 1997, 90 per cent of it was spent by the coal ministry oo operating subsidies rather than on helping the process of mine closures, which is what much of it was earmarked for.

Despite the subsidies, the country's 1m miners have not been paid for about six months on average and are owed some $500m.

This has led some observers to ask what the Ukrainian coal ministry is spending the money on and has caused the World Bank to freeze the second $150m tranche of a $300m Coal Sector Adjustment Loan to the government.

Without much support from the state, the liquidation of mines such as Myshketovskaya is proceeding slowly.

By far the most difficult part is splitting off "social assets" – schools, kindergartens and hospitals – and banding them over to already hurdened regional governments. So far, this has not happened at a single mine.

Meanwhile, programmes such as the Social Adaptation Centre are intended to provide miners with the skills to survive in a joh market, and nurture any entrepreneurial ehilities they have.

Eddie Mardell, one of three consultants hired by the Know How Fund to help mitigate the social traumas of closing mines in Donetsk, is drawing on his experience working for British Coal during the mine closures in the 1980s.

"One of the main things we nsed to do was provide workspaces for entrepreneurs. We gave miners attractive leases, low-cost loans, and we tried to nurture and generate new enterprises," he said.

Already at Myshkatovskaya there is a functioning pasta factory in an old boiler room and a workshop where women make artificial flowers for funeral wreaths.

Vladislav Sokolovsky, director of the mine liquidation team, said they had even more ambitious plans, such as converting a garage into e service centre for Peugot and Renault cars.

Valentina Antonovna, who was a mine employee for 35 years, now has a new joh as a counsellor at the centre, and summed up her feelings. "To be a good counsellor, you don't just need skills, yon need spirit. All the 500 people who were discharged from their jobs – we know each one, like they are our family."

Havel starts talks on forming new government

By Robert Anderson in Prague

President Vaclav Havel yesterday called on Josef Lux, leader of one of the coalition parties in the last Czech government, to start talks on forming a new administration.

The president's decision, which comes sooner than expected, indicates be has bowed to the probability that the current coalition cannot be rebuilt and early elections will be necessary.

But it also underlines the way Mr Havel, who has been seriously ill in recent months, has returned to the centre-stage in the wake of the country's worst political crisis for years.

The president had said he would wait for this weekend's leadership election in the ruling Civic Democratic party (ODS) but it oow looks likely that Vaclav Klaus, who resigned as prime minister at the eod of last mooth, will be re-elected as ODS leader.

Mr Klaus has said he will lead the ODS into opposition, and both the Christian Democrats, Mr Lux's party, and the rightwing ODA have said they will not work with Mr Klaus. Mr Lux, who will not necessarily be the new premier, is likely to try to assemble a cabinet largely from his party and the ODA.

Vaclav Havel: a vital role

But be will also probably include some non-partisan figures and ODS rebels, including, perhaps, Ivao Pilip, finance minister, outside whose house a bomb exploded at the weekend. Mr Pilip hinted the bomb might be connected with his threat to investigate recent controversial privatisations.

Both the president and Mr Lux accepted that any new administration was likely to he only temporary until early elections are called. Mr Havel said: "In terms of the political development of this country, it is necessary for an early election, but I cannot fight for it".

The collapse of the government has given the president a vital role. But it is one tightly circumscribed by the existing political balance and the looming presidential election on January 20.

Mr Havel needs a majority vote in both houses of parliament but his continual criticism of the prime minister has put this in doubt, at least in the first round. While all mainstream parties support his re-election, elements in the ODS and the opposition Social Democrats are likely to join with Communists and Republicans to vote against him.

Mr Havel had been rumoured to favour an interim non-political government but Mr Jiri Pehe, an adviser to Mr Havel, said the party leaders would not tolerate it and that Mr Lux would give the government continuity and experience. Mr Havel will give a keynote speech today, highlighting tbe areas he believes the interim government and its successor should address.

Finland aims at being in the euro vanguard

It wants a northern dimension for the currency

Damage from shrapnel and gunfire still scars some of the older buildings and statues in Helsinki, more than seven decades after Finland embarked on a brief but bloody civil war.

The bullet holes have been left unrepaired, partly to remind Finns of the country's comparatively recent struggle for independence and its precarious position on Europe's northern frontier with Russia.

Last Saturday, the Finnish capital again echoed with explosives as fireworks marked the country's 80th anniversary of its independence from Russia. But the government does not intend to celebrate the anniversary by reliving past battles. Instead, it is telling the 5.1m inhabitants Finland has emerged as the only Nordic country in the vanguard of closer European integration.

Unlike its neighbours Sweden and Denmark, Finland intends to become a founder member of the euro and hopes to use that status to create a "northern dimension" in management of the single currency.

Sauli Niinisto, finance minister, has touted the governor of the Bank of Finland as possible head of the European Central Bank. He has underlined his EU credentials by vowing to exclude non-euro countries from the informal forum of single currency finance ministers.

"We have worked hard to meet economic criteria even more demanding than those in the Maastricht treaty. Having done so, we don't see why countries outside the euro should be included in discussions about its implementation," he says.

Tarja Halonen, foreign minister, describes Finland's 1995 entry to the EU as a watershed. She maintains that Euro-scepticism in Sweden and Denmark means Finland has been left with responsibility to champion the efforts of Estonia, Lithuania and Latvia to become EU members.

By contrast, the Finnish Institute of International Affairs believes the government's foreign policy has been drafted partly to avoid a commitment on Nato enlargement.

"Joining the EU has firmly anchored Finland to the west and helped reassure Russia we will not be antagonistic by giving up neutrality for Nato membership," says Tapani Vaahtoranta, institute director. But the country is not wholly united behind further EU integration.

Esko Aho, a former prime minister now chairman of the opposition Centre party, claims Finland is not ready for euro membership and should put the issue to a referendum.

Mr Aho, who negotiated Finland's EU entry, would prefer less emphasis on euro-participation and more on domestic issues, such as reducing unemployment and deregulating labour markets. "We have enough battles to face at home before rushing headlong into Emu," he warns.

But the ministers who attended the independence ball are unlikely to pay much attention to Mr Aho's reservations. "We want to celebrate our future as a full member of the EU," says one senior government official. "There is a real sense of optimism we can lead the way in this part of the world."

Tim Burt

NEWS: WORLD TRADE

Toshiba blames Philips for DVD delay

By Alice Rawsthorn

Toshiba, the Japanese consumer electronics group, is blaming Philips, its Dutch competitor, for the delay in introducing DVD-Video to Europe.

Originally, DVD-Video, the entertainment version of the advanced compact disc billed as the hottest new electronics product of the 1990s, was due to go on sale in Europe in autumn.

The launch was initially postponed until next spring because the US movie studios could not deliver feature films on the new discs in time.

In yesterday's Les Echos, the French financial newspaper, Koji Hase, director general of Toshiba's DVD division, is now blaming Philips for the delay because of its slowness in developing an encoding system for DVD-Video software.

Mr Hase claimed that missing the Christmas market had cost the electronics and film industries up to FFr4bn ($670m) in lost European sales.

If the launch had gone ahead as planned, some 400,000 DVD-Video players, worth FFr2bn, could have been sold in Europe this year, he said, and FFr2bn worth of software.

Philips dismissed Mr Hase's accusations as "untrue", but declined to comment further. "We don't want to get into a public fight over this," it said.

The row between Toshiba and Philips is the latest in a series of conflicts to have dogged DVD's development.

An early battle broke out when Philips and Sony, the Japanese electronics group, threatened to adopt a different version of DVD-Video technology to that favoured by the DVD Forum, a consortium of rival companies led by Toshiba.

The two camps eventually reached a compromise, only for Sony and Philips to pit themselves against the DVD Forum again over the technology for DVD-Ram, the recordable form of the new computer discs. More wrangles are now dogging the launch of DVD-Audio, the musical discs.

Toshiba's accusations against Philips highlight the bitterness of the rifts within the electronics industry on the DVD issue.

Canada warns Clinton against isolationism after WTO outcry

By Guy de Jonquières

US President Bill Clinton needs to combat more effectively isolationist pressures in Congress, which threaten to create international discord and undermine the multilateral trade system, Canada's trade minister said yesterday.

Sergio Marchi accused Congress of taking an inward-looking "G1 view of the world", which assumed the US could prosper independently of other countries, and failed to grasp the importance of trade to its economy.

Mr Marchi was particularly critical of the outcry in Washington over Friday's decision by a World Trade Organisation disputes panel to dismiss a US complaint that Japan had rigged its photofilm market against imports.

Sergio Marchi (left, with US commerce secretary William Daley): warned US against taking a 'G1 view of the world' AP

Those in the US who had reacted to the ruling by calling for changes in the WTO were setting "a very dangerous precedent. We either set up institutions and believe in them, or let's not bother setting them up at all."

"It can't always be a case of heads I win, tails you lose. The multilateral system will fail that way – we've been down that road. It's not a question of who has the might to determine what is right."

Some Congress members "wear as a badge of honour that they have never travelled outside the US", Mr Marchi said in an interview. If such attitudes prevailed, they would "cause friction and division, and set back the cause of multilateralising and liberalising trade".

He expected Mr Clinton to renew his request to Congress for fast-track trade negotiating authority and believed he would succeed, if he sought support outside Washington and appealed directly to the US people.

Mr Marchi praised Mr Clinton as internationally-minded and an accomplished political operator. However, the US president and his administration needed to stand up more firmly to congressional opponents of free trade.

"Is the administration fighting the good fight? I don't mean to be critical... but I really believe deep down, if one is honest, that the administration needs to fight this trend and needs to do it more vigorously."

Mr Marchi said the European Union and Canada must stand united in opposing extra-territorial US legislation, such as the Helms-Burton and Iran-Libya Sanctions acts, and not allow Washington to play them off against each other.

He said he would also welcome closer European involvement in the Asia Pacific Economic Co-operation forum, which Canada has chaired this year. However, the EU was reluctant to join a grouping which had already set its own trade policy agenda.

Vietnam plans telecoms satellite launch

By Jeremy Grant in Hanoi

Ten years after sending its first and only cosmonaut into space on a Soviet-led mission, Vietnam's communist government has revived its aeronautical ambitions to launch a $200m-$250m telecommunications satellite.

The project, to be submitted to the government for approval next year, has generated intense interest from US and French telecommunications companies. Onca ground facilities ara included, the project's value could reach $600m.

Analysts say a fierce turf war is likely between European and US telecommunications companies over contracts to sell and launch the satellite, which will partly be used for defence purposes. "This is going to be the first big political fight (in Vietnam) between the US and Europeans," one said.

Interested parties include Lockheed Martin, Hughes and Space Systems/Loral of the US, and Alcatel and Matra-Marconi Space from France, as well as satellite manufacturers from Israel, Russia and China.

Dr Lnu Van Luong, a senior official in charge of the satellite project at the Directorate General for Posts & Telecommunications (DGPT), Hanoi's industry regulator, said although Vietnam already leased services from existing satellites in the region, the government wanted its own given rapid growth in domestic telecommunications.

The Geneva-based telecoms authority, the International Telecommunication Union, says Vietnam is the world's second-fastest growing telecoms market. The communist party has set an ambitious target of achieving six telephone lines per 100 people by the millennium, from almost two lines per 100 people currently.

However one difficulty for US companies is that the awarding of any contract would represent a significant strategic step for Vietnam towards Washington, which this year cemented cautious military ties with Hanoi for the first time since the end of the Vietnam war.

Vietnam is also wary of doing anything that would antagonise China, its arch rival and neighbour with which it fought a border war in 1979. Dr Luong said European companies appeared to be ahead in the game given current restrictions on federally-backed finance cover for US companies in Vietnam.

An executive with one of the three US companies said: "At this point we're still in technical discussions, helping them understand what the requirements are. But we're not ready to do a deal yet." Bankers say also that the satellite will be difficult to finance.

NEWS DIGEST

Progress in EU drugs talks

European Union health officials and the pharmaceuticals industry yesterday declared "considerable progress" in talks aimed at unleashing full competitive forces on the European drugs market.

Drugs companies have complained bitterly they are undermined by government controls of pharmaceuticals prices which encourage dealers to export cheap drugs from southern Europe to northern Europe, where drug prices are higher.

Martin Bangemann, the EU industry commissioner, said a consensus was "still some way off". But he said a three-stage strategy had been outlined which could begin to deliver concrete results within six months during the UK presidency of the EU next year. Mr Bangemann was hosting talks in Frankfurt between health ministries and the drugs industry about completing a single European market in medicines. *Graham Bowley, Frankfurt*

■ AIRCRAFT INDUSTRY

Airbus challenges Boeing

Airbus Industrie yesterday gave the go-ahead for the development of two new aircraft intended to break Boeing's hold over the large jet market. The aircraft, to be powered by Rolls-Royce Trent 500 engines, are based on the Airbus A340 model and will cost $2.9bn to develop. The A340-600 will carry up to 380 passengers and will compete with the Boeing 777 and earlier versions of the 747.

The A340-500 will be a long-range aircraft, with 313 seats. It will allow airlines to fly non-stop from Toronto to Hong Kong or New York to Taipei. Both aircraft will have list prices of about $150m each. Airbus has orders and options for 100 of the aircraft, with total sales, after discounts, of $13bn. Rolls-Royce said it would earn up to $4bn from the inital orders.

Michael Skapinker, Aerospace Correspondent

■ FINANCIAL SERVICES TALKS

WTO chief issues plea

Renato Ruggiero, director-general of the World Trade Organisation, yesterday appealed to countries negotiating a global pact to liberalise financial services not to let the best be the enemy of the good in the talks due to end on Friday. "We have a substantial harvest on the table, one which we cannot afford to lose," he said.

Mr Ruggiero's remarks appeared to be chiefly aimed at Washington, which is embroiled in a tussle with Malaysia over access to its market for US companies. Other trade diplomats say this has emerged as the main stumbling block to successful completion of the negotiations by next Friday's deadline.

Brazil handed its formal offer in yesterday, bringing the number of new and improved offers in this latest round of talks to 46, counting the EU as one. Offers from Indonesia, Thailand, Romania and Colombia were said to be imminent. The success or failure of the negotiations is now seen as dependent on Washington's assessment of the improved offers. US industry representatives, who had seemed quite optimistic a month or so ago, were more downbeat yesterday.

"When you look at how few of the US requests to other countries have been met, I think it's worry time," said one. *Frances Williams, Geneva*

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IRCRAFT INDUSTRY

challenges Boeing

INANCIAL SERVICES TALKS

TO chief issues plea

NEWS: INTERNATIONAL

China emerging as bad boy in pollution stakes

Rampant growth and heavy dependence on coal make China a villain in environmentalist eyes, writes James Harding

The urban pollution figures for China are enough to make you want to leave the country: 178,000 people die each year because of pollution; the blood-lead levels of children in Shanghai and other large cities average 80 per cent higher than those considered safe for mental development; and the levels of total suspended particles and sulphur dioxide are two to five times World Health Organisation guidelines.

As China's economy has roared ahead at double digit growth rates in recent years, the volume of pollutants pumped into the atmosphere has soared, creating a range of health risks and threatening to export huge environmental problems beyond Chinese borders.

Just as quickly the Chinese leadership has become keenly sensitive to environmental concerns, if the rhetoric and new regulations are a measure. The problem has been how to enforce the new environmental protection laws on the ranks of China's troubled and ageing state-owned industries.

At an international level – as delegates this week to the Kyoto summit on climate change can testify – the challenge is to get China to sign up to binding global commitments while respecting the country's right to pursue its agenda for economic development.

China discharges 14 per cent of the world's greenhouse gases, the largest contributor to global warming after the US, which is responsible for 22 per cent.

The overwhelming reliance in China on coal-fired energy is one of the chief sources of air pollution, one that has got worse as an expanding economy has driven energy demand. Coal use has more than doubled since 1980, reaching 1.3bn tonnes in 1995.

The World Bank calculates that if Chinese industry and energy consumption continues to grow in line with official forecasts – and without a proactive set of national

Climate change

and international policies to address environmental damage – carbon dioxide emissions will produce 2,330m tonnes of carbon in 2020, nearly three times the 800m tonnes in 1995*.

With climate change models predicting an increase in the earth's surface temperature of 1 to 3.5 degrees celsius by 2100 and sea levels rising by 15 to 95 centimetres as a result, China is acutely aware that it may suffer devastating effects itself.

Increased greenhouse gas levels will raise temperatures and cause more frequent storms, which would lower rice, wheat and cotton production. A rising sea level would threaten tens of millions of people living in low-lying areas – according to one Chinese study, a one metre rise could endanger an area the size of Portugal, threatening to flood cities such as Shanghai and Guangzhou, and displacing 67m people.

Like politicians elsewhere, Chinese leaders in the 1990s have been quick to see the political kudos in championing the environment. Song Jian, a member of the State Council, China's cabinet, for example, recently reaffirmed Beijing's commitment to protecting the environment.

A torrent of new regulations and international conventions has accompanied this rhetoric – over the last five years, the Chinese government has issued more than 110 environmental rules and laws and signed up to 10 international treaties on the environment.

But government officials privately admit that China fails to meet its own standards.

"Regulatory enforcement has been the weak link in China's system," says the World Bank, citing the patchy record of local authority enforcement. "Local governments face a trade-off between protecting the environment and safeguarding the financial and employment performance of local firms."

Future environmental measures will also have to go beyond the control measures of the past, the Bank argues. It suggests that China must harness market forces to work for the environment, using taxation to punish pollution, and it must commit higher levels of investment to clean and efficient technologies – pollution control investments will have to double to about 1 per cent of gross domestic product.

The Kyoto summit has offered a reminder of the diplomatic wrangles that dog environmental protection. China counts itself among the developing countries, which have threatened to reject US demands for binding commitments to cut greenhouse gases, arguing that they should not be required to sacrifice their development, but that richer countries can afford to take on the bulk of the costs associated with controlling emissions.

Lin Bin, associate professor of urban ecology and environment economics at the Institute of National Economy, says: "The Chinese government – and the developing countries in general – always say that developed countries should have to shoulder the responsibilities to help developing countries combat environmental damage. This can be done by way of transfer of environmental technologies."

Murky outlook: Pollution clouds Beijing's Tiananmen Square during National Day in October — Popperfoto

China is the largest recipient of funds from the Global Environment Facility, the international financial organisation managed by the UN and the World Bank to support global environment projects, which has provided $170m in grants for operations in China since 1995.

The regional evidence in China so far suggests that economic development, which has resulted in greater industrial output and higher emission levels, may ultimately help improve China's environmental record. A study of 50 cities in China shows that as wages rise, the pollution density of suspended particles falls – a symptom of tougher enforcement of regulations in richer areas as well as more inefficient production in poorer areas.

On a comparative basis in China, then, Shanghai, where the economy has been growing at an average rate of 14 per cent in recent years, may not prove to be such a bad place to live after all.

Clear Water, Blue Skies – China's Environment in the New Century. World Bank China 2020 series.

This is the fifth in a series of articles on issues facing the Kyoto climate change conference

Campaign against Winnie intensifies

By Roger Matthews in Johannesburg

The African National Congress yesterday intensified its campaign to block the attempt by Winnie Madikizela-Mandela, former wife of South Africa's president, to contest the deputy leadership of the party.

Ronnie Mamoepa, spokesman for the ANC, announced early yesterday that the ANC's women's league, which has nominated Mrs Mandela for the post, had decided to abandon her. He claimed the decision had been taken during a meeting of the executive committee on Sunday. Mrs Mandela is president of the women's league and at the last ANC conference in 1994 came fifth in the voting for the national executive committee.

But the league almost immediately contradicted Mr Mamoepa, describing his statement as "wholly incorrect and devoid of all truth." The exchange underlined what a tough struggle Mrs Mandela is facing in her bid to force an election for the deputy presidency of the party, and the ANC leadership's determination to quash her candidacy.

The contest was given additional importance by the recent nine-day hearing of the Truth and Reconciliation Commission into the activities of Mrs Mandela during the late 1980s when she headed the so-called Mandela United football club. During the hearings which concluded last week, a number of witnesses accused Mrs Mandela of murder, kidnapping and torture – allegations she dismissed as "ludicrous and nonsensical".

Although some political commentators believe the accusations have irreparably damaged Mrs Mandela's political chances, the ANC leadership is less sure. Archbishop Desmond Tutu, who heads the Truth Commission, last week paid a glowing tribute to Mrs Mandela for her part in the struggle against the apartheid system, a role which has not been forgotten by the ANC activists. Mrs Mandela appeared to take heart from the warm public endorsement, even if it was made during an appeal for her to apologise for things "which went horribly wrong".

The ANC is hoping to unite delegates to next week's conference behind Jacob Zuma, the party leader in KwaZulu-Natal, as deputy leader. He has won the endorsement of provincial delegations. However, voting is secret, which in part explains the ANC's determination to prevent a ballot.

More refugees 'have nowhere to run'

By Frances Williams in Geneva

Reluctance by rich and poor countries to accept people fleeing persecution and conflict has left growing numbers of refugees with "nowhere to run", the United Nations refugee agency says in its annual report*, published yesterday.

While the number of true refugees, defined as those that have crossed national boundaries, had been shrinking and 10m had returned home since 1990, the number of people displaced in their own countries continued to rise.

Up to 25m people, beyond the 22m already cared for by the UN High Commissioner for Refugees (UNHCR), might have been forced to abandon their homes, and many were trapped in war zones in their home countries, the report added.

Of the UNHCR's own caseload, less than 60 per cent were refugees truly defined for which the agency has a clear protection mandate. The others comprised internally displaced people, returning refugees and others where the UNHCR could intervene only if asked to do so.

Sadako Ogata, High Commissioner, said yesterday that "an explosive mix of factors" was responsible for rising displacement, including the growth of statelessness, human rights abuses, economic decline and the targeting of civilians in an estimated 35 ethnic or communal conflicts around the world. Yet it was harder for displaced people to find refuge.

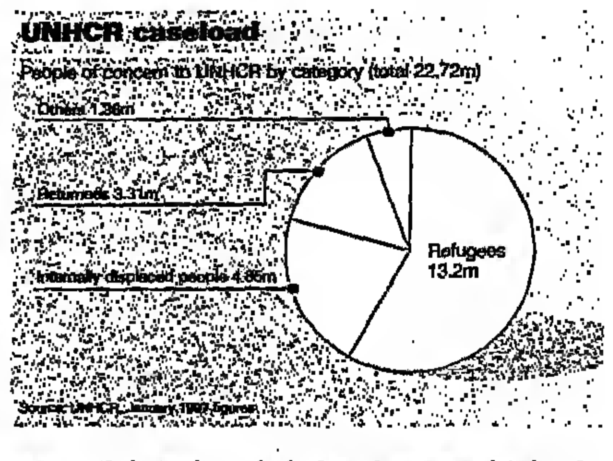
Industrialised nations had taken measures to deter people seeking refuge on their territory; only a minority of those who applied were given refugee status.

These measures had succeeded in cutting the number of asylum seekers from 800,000 in 1992 to about half a million last year, at the cost, the UNHCR said, of denying protection to genuine refugees, diverting the problem elsewhere and increasing the scale of "human trafficking" by organised gangs.

Pressure by donor countries for "quick-fix" solutions to refugee emergencies, and poor nations unwilling to keep large numbers of refugees on their territory, had led to pressure on the UNHCR to "support repatriation neither strictly voluntary nor strictly safe".

A large proportion of the world's recent returnees have been repatriated under some form of duress," the report says.

The state of the world's refugees 1997-98: A humanitarian agenda. Oxford University Press.



Iran looks for unity at Islamic conference

Robin Allen on scope of new consensus against 'hegemony of aliens and Zionist atrocities'

In a symbolic show of Islamic unity and national reconciliation, Taha Yassin Ramadan, the deputy prime minister of Iraq, Iran's former arch enemy, flew into Tehran yesterday to join more than 65 delegations at the eighth summit of the Organisation of Islamic Conferences (OIC).

The three-day summit, attended by 35 Islamic heads of state and government leaders, formally opens today Mr Ramadan is the most senior Iraqi to visit Iran since their vicious 1980-88 war which caused over one million casualties.

According to local analysts and western diplomats, Iraq's presence, together with delegates from Gulf and other Arab countries, long hostile to or suspicious of Iran's clerical-led Islamic revolution, demonstrates the degree to which Iran has broken out of its largely self-imposed isolation.

It also gives the regime scope to create a new Islamic consensus against what Mohammad Larijani, the head of the *Majlis* (parliament's) foreign affairs committee, calls the "hegemony of aliens and the atrocities committed by Zionism" – Iranian parlance for the political, material and cultural onslaught from the "heathen" west, and its concomitant, perceived as US-backed, Israeli occupation of Arab and Islamic territories.

At the same time, Mr Larijani, writing in yesterday's issue of the conference bulletin, reminds OIC members that the organisation was originally formed to defend the Islamic integrity of Jerusalem, and the independence of the Palestinians.

In a significant departure from the traditional protocol, neither President Mohammad Khatami nor Kamal Kharazi, his foreign minister, will give the OIC's inaugural speech.

Instead this will be delivered by Ayatollah Ali Khamenei, Iran's spiritual leader, whose authority overrides the president in

Iraq's presence helps symbolise Tehran's retreat from isolation

many domestic and foreign policy areas, and whose tone and outlook in both areas has been notably harder and less accommodating than President Khatami's.

However, observers say that both the tone and the substance of Mr Khamenei's speech will need to "fit the audience and the occasion", given the presence of many Islamic and Arab countries that have traditional and enduring links with the US, the European Union and other western countries.

The twin conference priorities of building an Islamic consensus and reinforcing Iran's return to the leadership ranks on the international stage could mean that some of Iran's traditional and more inflammatory language is toned down, even if not omitted.

"Violent rhetoric now would not be consistent with all the signals we are getting from the government following the return of European ambassadors," remarked one senior western diplomat yesterday.

Two influences have been at play which should ensure a degree of moderation in conference speeches. The first is the presence of Saudi Arabia, which hosts the Jeddah-based OIC Secretariat, and which finances many of the summit's expenses, including delegates' travel costs.

The second is the presence, behind Mr Khamenei, of Ali Arkbar Velayati, foreign minister for most of the last 18 years since the Islamic revolution until he left the government in August, and now Mr Khamenei's leading adviser on international affairs. "He may be close to Mr Khamenei," remarked one Iranian observer, "but at the same time he supports the more practical-minded technocratic thinking represented by President Khatami and his cabinet."

An irony of the conference is that while Iran is trying to put its best international foot forward, its obsession with security – fear of its own radical revolutionary zealots exploiting the conference to make trouble – has caused the regime to isolate itself from its own people.

The government has closed not only international airports, but also all highways into the city and much of the northern residential part of the city itself.

Tens of thousands of residents have been told to keep themselves indoors.

See Editorial Comment

NEWS DIGEST

Terror group in Egypt split

Disarray within the leadership of Egypt's main militant Islamist organisation has splintered its military wing and cast doubt on government claims that exiles were responsible for directing the armed unit which last month killed 58 foreign tourists and four Egyptians near Luxor.

Control over the armed elements of the Gama'a al-Islamiyya within Egypt is in the hands of a four-member military council. Ultimate authority for military operations, which have killed 1,200 people since 1992, lies with Mustapha Hamza, in exile in Afghanistan.

But a statement approved by Mr Hamza yesterday condemned the Luxor attack and called on the group's military units to cease all attacks on tourist targets within Egypt. *Mark Huband, Cairo*

■ ZIMBABWE DOLLAR

Strike threat adds to troubles

The Zimbabwe dollar came under fresh pressure yesterday ahead of the planned nationwide strike today called by the Zimbabwe Congress of Trade Unions.

The Zimbabwe currency, which had stabilised at about Z$14.5 to the US dollar last month, lost more than a dollar yesterday to close at Z$16.20, taking its fall in the last month to more than 15 per cent.

Dealers said that nervousness about today's strike was only one factor – others being the government's apparent confusion over how to finance the one-off bonus payment to war veterans that will cost Z$2.5bn ($154m), the land takeover and what one dealer called the "sheer amateurism" of the central bank in seeking to stabilise the exchange rate. *Tony Hawkins, Harare*

■ IRAQI ARMS

UN chief to hold talks

Richard Butler, head of the UN disarmament commission, will hold talks this weekend in Baghdad on gaining access to "sensitive" sites, including presidential enclaves, that have been barred to his inspectors in violation of Security Council resolutions. *Michael Littlejohns, New York*

■ TURKEY AND ISRAEL

Growing ties attract criticism

Israel and Turkey yesterday denied their growing military, economic and cultural ties were directed against any other country. The denials came as Yitzhak Mordechai, Israeli defence minister, began a three-day visit to Ankara to discuss joint manoeuvres as well as more defence projects. Several Arab states, notably Syria, have criticised the alliance. *Judy Dempsey, Jerusalem*

Borrowing costs fall for Japan banks

By Gillian Tett in Tokyo

The cost of borrowing money on international markets for Japanese banks fell sharply yesterday after some politicians suggested the government should sell US bonds to help the banking sector.

The "Japan premium" – the extra cost banks pay to secure funds compared to their US and European counterparts – dropped to about 56 basis points for three-month eurodollar contracts, traders said.

Last week the premium surged over 100 basis points after the failure of three large financial institutions made a severe dent in international confidence in Japanese banks.

The surge in the premium has dismayed government and banking officials, who have been scrambling to find ways of reducing the premium.

The ruling Liberal Democratic party is expected to produce some proposals soon to boost the economy and raise confidence in the financial system. The details of these proposals are still being hotly debated by politicians.

However, Taku Yamasaki, a senior politician in the Liberal Democratic party, suggested at the weekend that the government should sell its Treasury bonds to provide dollars for Japanese banks unable to raise funds.

The suggestion, which has been aired before by Japanese politicians, has traditionally generated alarm in the US. Japan is the largest single holder of US treasuries, and any major sell off could severely hit the markets.

However, the proposal was put down by government officials yesterday, who suggested it had been made for domestic political purposes. "This is not a serious suggestion," said one.

Traders also pointed out that the government was unlikely to make any large sale because US treasuries are yielding much more than domestic investment instruments.

Indeed, in a sign of this market scepticism, the dollar rose to a new five-year high of Y130.52 in Tokyo. A sale of US treasuries would usually be thought to push the dollar lower.

The Ministry of Finance yesterday said that it was "concerned" about the yen's fall. Takeshi Komura, vice-finance minister said: "Excessive yen weakness is undesirable."

However, it is widely believed in Japanese government circles that the US authorities are now quietly prepared to tolerate some yen weakness in light of the current stagnation of the Japanese economy.

Thailand shuts 56 finance companies

By Ted Bardacke in Bangkok

Thailand yesterday closed permanently 56 bankrupt financial institutions, a move which is expected to earn the government $800m in fresh International Monetary Fund loans.

"The decision is a clear signal that Thailand is committed to rebuilding a strong and viable financial system," said Tarrin Nimmanahaeminda, minister of finance.

The baht was stable at Bt41.72 to the US dollar and the stock market rose 3.3 per cent on the announcement. Some investors said they no longer doubted the government's commitment to an IMF-designed programme of financial reform.

The IMF reforms were imposed after Thailand turned to the Fund last summer when Bangkok's decision to allow the baht to depreciate triggered the east Asian financial crisis.

Thailand is now trying to regain the confidence of international investors by overhauling its creaky financial system after a change of government last month.

The reforms included the suspension of 58 struggling finance companies with total assets of $23.7bn. The companies, which had borrowed massively from the government, were asked to submit recapitalisation proposals which, if accepted, would have allowed them to reopen.

Yesterday only two plans were approved, including one by American International Group to take over Bangkok Investment.

Last night in Washington, the IMF board of directors was expected to approve the second tranche of funds for Thailand from its $17.2bn emergency bailout package. "They've done what needed to be done," an IMF official said.

The decision to close 56 finance houses "a watershed event that far exceeded our expectations," said J. Shivakumar, Thailand representative of World Bank, architect of the closure scheme which the Thais adhered to in spite of last month's change in government. "The authorities have been very diligent. We haven't seen any signs of political interference."

The closures will involve the loss of 6,000 jobs.

"How would you feel if you raised a child for 26 years and it died," asked Suthee Audsarat, chairman and founder of Sitca Investment, one of the largest of the closed companies, as his office was secured by six plainclothes policemen.

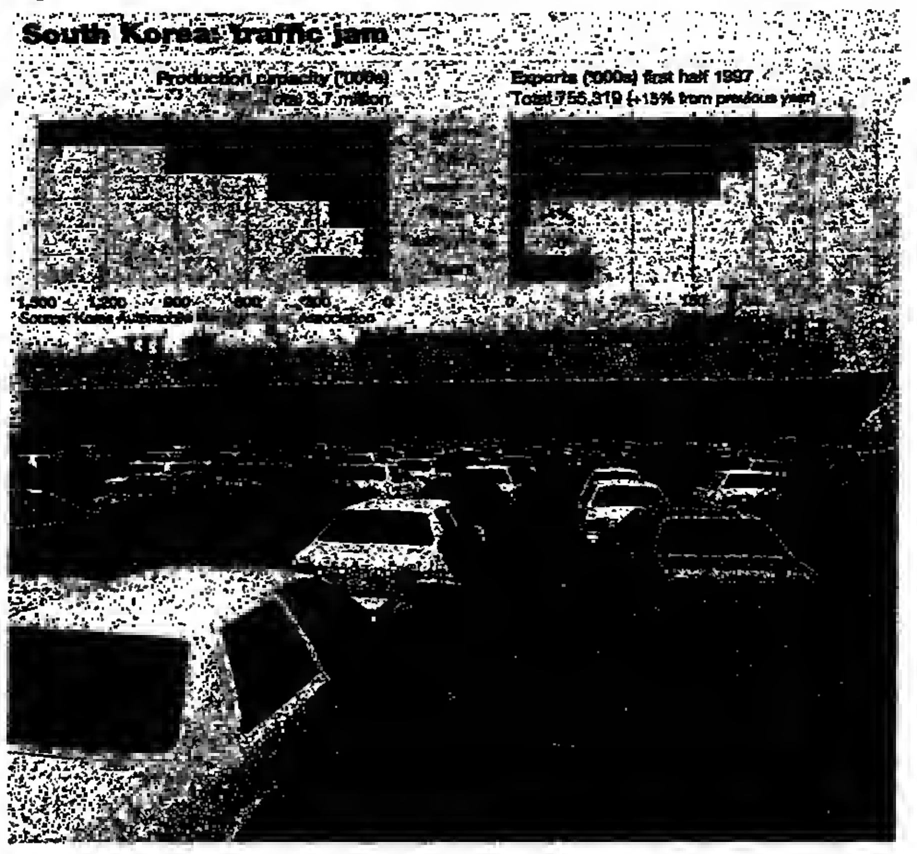
"We lived under an illusion of wealth and this is the price we are paying for it," Mr Suthee said.

The assets of the companies closed will be sold off over the next year. This will be done through two specially set up government agencies, including a new commercial bank. Many analysts say the bidding process will result in a fall in property prices that will hurt Thailand's 50 financial institutions.

Foreign banks, which lent the closed companies more than $20bn, will be repaid either from the proceeds of the sale of assets. Some creditors may receive a government pledge to recoup about 60 per cent of the original value of their loans in five years.

Korea car sector on rationalisation road

John Burton analyses the merger between the country's second and fourth largest carmakers



The takeover of Ssangyong Motors by Daewoo signals the start of a much-needed rationalisation of South Korea's crowded car market, the world's fifth largest, under the influence of austerity measures imposed by the International Monatary Fund.

"The car industry is a classic example of the industrial over-investment financed by debt that has landed Korea in its current economic problems," said Del Ricks, research head at BZW in Seoul.

Korea's other main industries – steel, petrochemicals, shipbuilding and computer chips – are similarly burdened by high debts and excess capacity, with little thought given to profitability.

Analysts and foreign competitors have warned for years that the country's rapid production expansion was unsustainable because the global car market was becoming glutted.

A sluggish domestic market and falling export prices forced Kia, Korea's third largest carmaker, to declare bankruptcy in October in the nation's biggest corporate collapse. This helped undermine foreign investor confidence that provoked financial turmoil and forced Korea to seek a $57bn rescue from the IMF.

The economic crisis could not have come at a worst time for Korean carmakers already threatened with a possible trade war with the US over restricted car imports to Korea. Analysts think Daewoo's purchase of Ssangyong will eventually result in the number of Korean carmakers being cut from five to two or three.

The merger between Korea's second and fourth largest carmakers poses a serious challenge to Hyundai Motor, the nation's leading car producer, as it means Ssangyong's four wheel-drive and commercial vehicles will be added to Daewoo's core business of passenger cars.

Tough financial conditions forced Ssangyong, the nation's sixth largest conglomerate, to sell its vehicle division, which has debts of nearly 50 times equity after a recent capacity expansion and the launch of its first passenger car in October.

To raise capital to service its debts, Ssangyong earlier sought to sell up to 49 per cent of the car company to Daimler-Benz, its technology partner which has a 2.6 per cent stake in Ssangyong Motors.

The deal between Daewoo and Ssangyong will raise questions about the fate of Korea's two remaining carmakers Kia and Samsung. Analysts think the prospects for Samsung, which will begin car production next March, are poor unless it can acquire Kia.

In a controversial move that led to Korea's sovereign rating being downgraded by Standard & Poor's, the US credit rating agency, the government took over Kia after it collapsed under $10bn in debts.

The government claimed at first that its rescue of Kia was only a temporary measure to rehabilitate it before selling the carmaker. But Jin Nyun, Kia's new chairman, has suggested that the carmaker should be kept in the bosom of the state because it would save jobs.

This is in sharp contrast to his role in January when as labour minister he tried to push reforms making it easier to sack workers. Violent demonstrations forced the government to back down and Mr Jin was sacked from the cabinet.

Now posing as the workers' champion, Mr Jin wants to keep Asia Motors, Kia's truck division, instead of selling it, as the government earlier proposed. He has also suggested selling Kia's specialty steel unit to state-run Pohang Iron & Steel rather than to a private company. However, both divisions are heavily indebted and losing money. The truck division's facility is operating at only 21 per cent of capacity.

But his strategy has won the support of Kia's unionised workforce and helped return the company to normal operations, backed by government financing.

Analysts say the IMF measures might still force the state to sell Kia to Samsung instead of propping it up.

Samsung has its own problems, however. The group's financial position is weakening as its main business, computer chips, is suffering a sharp fall in profits.

Moreover, Samsung is launching its new car, built with technology from Nissan of Japan, in the midst of an economic recession at home and dismal export prospects in Asia as a result of the region's financial turmoil. It has already postponed plans to double car production to 500,000 vehicles by 2002.

Samsung officials have suggested the car company might have to be sold if a takeover of Kia fails.

The rationalisation of the car industry could benefit Korea by encouraging a substantial increase in foreign direct investment if international carmakers decide to acquire manufacturing plants from Samsung or Kia.

"Because of its close proximity to China and excellent infrastructure, Korea is a superb site for any foreign company seeking a manufacturing base in Asia," said Chris Rocco, branch manager of Schroder in Seoul.

See Lex, Back Page

NEWS DIGEST

HK picks Beijing representatives

Pro-Beijing politicians and business figures were yesterday picked to represent Hong Kong in China's parliament amid protests from the territory's pro-democracy forces.

The 36 Hong Kong delegates chosen to sit in the National People's congress included the head of the Hong Kong branch of the official Xinhua News Agency, one of China's main offices in the territory. Jiang Enzhu secured most votes from a 424-member Beijing-appointed committee, while Lee Wui-ting, his aide, was also one of the biggest winners.

Pro-democracy forces condemned the selection process, criticising the "closed-circle election" and warning of encroachments on Hong Kong's promised autonomy. Emily Lau, spokesman of the Frontier party, said Mr Jiang's selection made a sham of the "one country, two systems" formula, which underpinned the transfer of sovereignty from Britain in July.

The selection, however, drew the support of Tung Chee-hwa, Hong Kong's post-colonial leader. "The 424 people represent a very wide cross section of Hong Kong people. These are indirect elections and they are effective in their own way," said Mr Tung. *John Ridding, Hong Kong*

■ MALAYSIAN AUSTERITY

Pay cut for ministers

Malaysia announced significant pay cuts for government ministers yesterday as an austerity package unveiled last week began to gather momentum. Anwar Ibrahim, deputy prime minister and finance minister, said salaries of ministers and deputy ministers would be cut by 10 per cent and those of other senior officials by 3 per cent.

Mr Anwar said the cuts, which were described as voluntary, were an important display of support for the austerity programme. It represented a key policy shift which will, if executed, usher in one or two years of painful restructuring. The shift is intended to prevent the country from having to seek the assistance of the International Monetary Fund, which Kuala Lumpur fears would result in a loss of economic sovereignty.

Ministers earn M$26,000 (US$7,000) a month and deputy ministers receive M$18,000. Incomes are, however, supplemented by cash from other sources and allowances.

Abu Hassan Omar, chief minister of Selangor state, for instance, has provoked controversy following the revelation that he had received an allocation of M$5m for decorating his house.

Kuala Lumpur's stock market soared 11.3 per cent yesterday, the first full day of trading since the package was announced. There were signs, too, that financial restructuring, considered essential for the economy's health, might be about to start. Mr Anwar told parliament that "several bank mergers are now in the final stages" of negotiation. *James Kynge, Kuala Lumpur*

■ KOREAN TALKS

Peace negotiations under way

North and South Korea, the US and China will meet today in Geneva to begin talks on a peace agreement that would bring a formal end to the 1950-53 Korean war.

The talks could result in breaking Pyongyang's diplomatic isolation with western countries and promote foreign investment to rescue the North's economy affected by widespread starvation and industrial stagnation.

But US and South Korean officials warned progress at the talks could be slow since North Korea demanded that the withdrawal of 37,000 US troops from South Korea should be included in the peace negotiations, a demand rejected by Washington and Seoul. *John Burton, Seoul*

Ramos anoints house speaker as successor

By Justin Marozzi in Manila

Philippine President Fidel Ramos yesterday surprised political observers by endorsing Jose de Venecia, speaker of the lower house, as his successor in presidential elections next May.

The "anointment" of Mr de Venecia confounded expectations that Mr Ramos would throw his snpport behind Renato de Villa, the former defence secretary and a loyal supporter of the president.

"I'm shocked hy this decision. It means they will really have to apply the machinery to the hilt because de Venecia is not going to get very enthusiatic support from Ayala Avenue [heart of Manila's financial district of Makati]," said Alex Magno, professor of politics at the University of the Philippines.

Mr Ramos' decision, says analysts, is thought to have been driven by the need to maintain unity within his Lakas party, the biggest member of the ruling "rainbow" coalition. "This is a decision of a president who did not want the party to split," said Mr Magno.

In recent days, Mr de Venecia's team had warned that presidential backing for Mr de Villa would trigger a damaging split within Lakas and provoke a separate presidential bid by the house speaker.

However, Mr de Villa is oot expected to bolt from party ranks. A Lakas split would provide a big boost to the opposition.

In a typical display of horse-trading, Mr de Venecia's advisers threatened in the past few days that the critical and long-delayed tax reform would not be passed unless the house speaker receivad the president's backing.

Observers said it was not a coincidence that Congress ratified the final component of the tax reform hill last night, shortly before the president's decieion was announced. "This was a quid pro quo," said Mr Magno.

Mr de Venecia is credited with welding the ruling "rainbow" coalition, which since 1992 has approved a wave of often controversial economic reforms.

A recent survey by SWS, a leading pollster, pnt tha country's two leading opposition politicians way ahead of potential administration candidates.

Gloria Macapagal-Arroyo, a high-profile senator, led in first place on 28 per cent, with Joseph Estrada, the populist vice-president and critic of Ramos on 23 per cent. Mr de Venecia and Mr de Villa trailed on sbout 5 per cent.

Observers said it was extremely difficult to quantify the electoral valne of the presidential endorsement, but said Mr de Venecia would receive formidable financial and logistical support from the administration.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

■ UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	101.9	96.6	102.1	99.9	85.0
1987	105.5	100.7	103.9	98.4	78.1
1988	108.9	103.2	106.8	100.2	71.0
1989	115.2	106.5	109.9	101.9	74.6
1990	121.5	113.9	113.5	104.9	73.2
1991	126.6	115.3	117.3	106.4	74.1
1992	130.4	117.7	120.1	108.3	74.0
1993	134.3	119.2	123.1	108.8	76.4
1994	137.6	118.9	126.5	108.5	74.1
1995	141.7	122.2	129.7	108.2	68.7
1996	145.6	125.4	133.9	108.2	73.3
4th qtr.1996	3.2	3.0	3.5	-0.7	74.3
1st qtr.1997	2.9	2.1	3.6	-0.3	77.9
2nd qtr.1997	2.3	0.4	2.6	-0.8	78.1
3rd qtr.1997	2.2	-0.1	2.7	-1.4	79.2
December 1996	3.3	2.8	3.7	-0.8	75.0
January 1997	3.0	2.5	3.0	-0.2	76.5
February	3.0	2.2	3.5	-0.5	76.4
March	2.8	1.5	4.3	-0.3	79.0
April	2.5	0.6	2.8	-0.7	79.2
May	2.2	0.4	3.0	-0.7	77.7
June	2.3	-0.1	2.8	-0.9	77.4
July	2.2	-0.2	2.5	-1.2	78.3
August	2.2	-0.2	2.6	-1.8	79.7
September	2.2	0.0	2.8	-1.5	79.7
October	2.1	-0.2			79.2
November					79.9

■ JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	100.9	95.3	101.4	102.7	118.5
1987	101.3	92.5	103.1	100.0	122.9
1988	102.3	92.3	107.6	98.0	131.0
1989	105.1	94.2	114.0	96.6	123.5
1990	108.3	95.7	120.1	99.7	108.2
1991	111.9	96.8	124.2	103.9	113.2
1992	114.0	95.9	125.6	112.6	114.5
1993	115.4	94.3	125.8	118.6	131.9
1994	116.2	92.6	128.4	118.5	137.3
1995	115.9	92.0	132.5	115.8	138.3
1996	115.6	91.3	135.6	113.3	118.6
4th qtr.1996	0.1	-0.8	2.0	-3.4	114.0
1st qtr.1997	0.0	-0.3	5.2	-5.0	110.0
2nd qtr.1997	1.6	1.7	2.9	-4.5	114.2
3rd qtr.1997	1.7	1.6	2.7		117.4
December 1996	-0.2	-0.4	1.4	-2.8	113.3
January 1997	0.0	-0.4	8.6	-6.8	111.3
February	0.1	-0.3	3.1	-2.1	109.1
March	0.0	-0.2	2.7	-6.0	109.4
April	1.2	1.6	2.6	-3.1	109.2
May	1.4	1.7	2.9	-5.1	114.3
June	1.9	1.6	3.0	-5.3	119.2
July	1.4	1.6	3.2	-3.3	119.6
August	1.6	1.7	2.8	-1.9	118.5
September	2.2	1.7	1.5		114.2
October	2.4				113.2
November	2.0				108.5

■ GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	99.9	97.5	103.6	103.6	107.5
1987	100.1	95.0	107.9	107.1	110.9
1988	101.4	96.2	112.6	106.9	109.9
1989	104.2	99.3	117.1	108.0	107.5
1990	107.0	101.0	123.5	110.3	109.9
1991	110.9	103.4	131.3	109.6	107.5
1992	116.5	104.9	138.2	115.3	110.0
1993	121.7	105.1	145.6	118.4	111.3
1994	125.1	105.7	150.6	112.1	109.6
1995	127.4	107.5	155.8	110.8	114.7
1996	129.3	107.1		109.7	109.8
4th qtr.1996	1.4	-0.3		-4.9	107.6
1st qtr.1997	1.7	0.6		-5.8	106.2
2nd qtr.1997	1.6	1.1		-5.3	104.9
3rd qtr.1997	1.9	1.4			103.3
December 1996	1.4	-0.3	n.a.	-6.8	107.8
January 1997	1.6	0.7	n.a.	-4.9	106.7
February	1.7	0.9	n.a.	-7.8	105.9
March	1.5	0.7	n.a.	-5.0	105.7
April	1.4	0.9	n.a.	-5.9	105.3
May	1.6	1.1	n.a.	-4.0	105.2
June	1.7	1.4	n.a.	-6.1	104.6
July	1.9	1.4	n.a.	-10.3	103.4
August	2.1	1.5	n.a.	-4.1	103.0
September	1.9	1.4	n.a.		103.5
October	1.6	1.2	n.a.		104.1
November			n.a.		104.4

■ FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	102.5	99.0	104.5	101.6	103.4
1987	105.9	98.1	107.8	103.0	104.7
1988	108.9	102.9	111.5	104.1	102.1
1989	112.6	108.2	115.8	105.2	99.7
1990	116.5	107.1	121.5	109.8	102.9
1991	120.2	105.9	127.1	113.4	100.7
1992	123.1	104.3	132.3	115.6	104.2
1993	125.6	101.6	135.6	118.1	106.9
1994	127.7	102.7	138.2		106.1
1995	130.0	109.7	141.5		106.1
1996	132.6	105.8	144.9		108.2
4th qtr.1996	1.7	-3.9	2.9		105.8
1st qtr.1997	1.5	-2.6	3.0		103.4
2nd qtr.1997	0.9	-0.9	2.7		102.6
3rd qtr.1997	1.3	0.8	2.6		100.2
December 1996	1.7	n.a.	n.a.	n.a.	105.0
January 1997	1.8	n.a.	n.a.	n.a.	103.3
February	1.6	n.a.	n.a.	n.a.	103.3
March	1.1	n.a.	n.a.	n.a.	103.8
April	0.9	n.a.	n.a.	n.a.	103.3
May	0.9	n.a.	n.a.	n.a.	102.7
June	1.0	n.a.	n.a.	n.a.	101.9
July	1.0	n.a.	n.a.	n.a.	99.5
August	1.5	n.a.	n.a.	n.a.	99.9
September	1.3	n.a.	n.a.	n.a.	101.3
October	1.1	n.a.	n.a.	n.a.	101.9
November		n.a.	n.a.	n.a.	102.3

■ ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	106.1	99.4	104.8	102.6	101.3
1987	111.0	102.2	111.6	105.5	102.1
1988	116.5	105.7	118.4	109.7	100.9
1989	124.2	112.0	125.9	112.3	105.1
1990	131.7	116.2	134.7	118.8	111.6
1991	140.3	120.0	147.9	129.6	113.1
1992	147.7	122.3	155.9	134.5	109.5
1993	153.9	126.9	161.9	136.9	95.2
1994	160.0	131.6	167.0	138.1	93.3
1995	168.9	142.0	172.2	138.1	90.3
1996	175.0	144.7	175.3		101.9
4th qtr.1996	2.7	0.8	1.6		104.7
1st qtr.1997	2.4	0.9	3.9		104.0
2nd qtr.1997	1.9	1.2	3.6		102.0
3rd qtr.1997	1.5	1.7	3.4		101.7
December 1996	2.6	0.9	1.6	n.a.	105.4
January 1997	2.6	0.6	3.9	n.a.	106.0
February	2.4	0.8	3.8	n.a.	103.6
March	2.2	0.9	4.0	n.a.	102.0
April	1.7	0.9	3.9	n.a.	102.0
May	1.6	1.1	3.6	n.a.	102.2
June	1.4	1.5	3.7	n.a.	101.8
July	1.6	1.7	3.4	n.a.	101.5
August	1.5	1.7	3.4	n.a.	101.5
September	1.4	1.6	3.4	n.a.	102.1
October	1.6			n.a.	102.0
November				n.a.	102.1

■ UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	103.4	101.4	107.7	103.9	94.3
1987	107.7	104.9	116.3	106.2	94.6
1988	113.0	108.7	126.2	108.8	101.6
1989	121.6	113.9	137.2	114.1	100.5
1990	133.3	121.0	150.1	121.6	101.4
1991	141.2	127.5	162.4	127.9	104.4
1992	146.4	131.5	173.1	128.2	100.9
1993	146.7	136.7	180.6	127.6	93.1
1994	152.4	140.1	189.5	127.1	94.1
1995	157.6	146.0	196.0	131.7	90.7
1996	161.5	149.6	206.6	138.8	93.6
4th qtr.1996	2.6	2.0	4.9	4.7	99.5
1st qtr.1997	2.7	1.2	4.4	3.3	105.8
2nd qtr.1997	2.7	1.0	4.2	2.9	108.2
3rd qtr.1997	3.5	1.3	4.1	2.2	111.6
December 1996	2.5	1.6	5.1	4.0	102.4
January 1997	2.9	1.5	4.2	6.6	104.8
February	2.7	1.2	4.6	3.2	106.1
March	2.6	1.0	4.3	3.0	106.0
April	2.4	0.8	4.0	1.8	108.0
May	2.6	1.0	4.3	3.7	107.6
June	2.9	1.1	4.4	3.3	109.2
July	3.4	1.3	4.0	2.0	114.1
August	3.5	1.4	4.4	2.3	111.6
September	3.6	1.2	4.0	2.1	108.9
October	3.7	1.3			108.9
November		1.0			112.9

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

هيكل من الاهرام

NEW YORK CONFERENCE ON DORMANT HOLOCAUST ACCOUNTS

Moratorium urged on Swiss boycott

By John Authers in New York

US financial officials were urged by the World Jewish Congress at a New York conference yesterday to hold a three-month moratorium before taking any further business sanctions against Swiss banks over their response to the issue of holocaust victims' accounts.

The appeal was announced by Israel Singer, the organisation's secretary-general, at a special conference convened by Alan Hevesi, comptroller of New York City, in an attempt to agree a co-ordinated response on the issue. It seemed likely to succeed in averting any further moves by US states or cities to withdraw business from Swiss banks until next March.

Mr Singer said: "Wa don't like boycotts of any kind and we oppose them. But we understand those who believe economic pressure is successful as a means of bringing results. We describe the next 90 days as a period when we will talk to anyone to resolva every last issue."

The call followed last week's decision by Matt Fong, California state treasurer, to lift his own state's block on new business for the next three months, and appeared to confirm that Swiss banks were beginning to win over their critics in the US.

It was supported by Madeleine Kunin, the US ambassador to Switzerland, who strongly opposes sanctions on Switzerland, and by the US State Department.

However, Thomas Borer, the Swiss government's ambassador who co-ordinates the issue, made clear he was unhappy about the policy. He said: "Sanctions now or in the future against Switzerland are unfair and against international law. Setting deadlines is also counter-productive. We have taken an open and co-operative approach to the issue and we would expect yon to do the same."

City councillors from Chicago and a state legislator from New Jersey both attacked Mr Singer's position. A Chicago alderman said the city had been "sitting" on an ordinance which would boycott any bank in Chicago which did business with any Swiss bank for the last six months.

Joel Weingarten, an assemblyman from New Jersey, said he was sponsoring a bill which would force his state to withdraw all investments from Swiss institutions. Describing the money in dormant accounts as "blood money" he demanded that the banks give a precise date on which they would reimburse all holocaust victims and their descendants.

The conference was also due to hear from Rudolf Giuliani, the mayor of Naw York, and from Paul Volcker, the chairman of the committee of eminent persons set up jointly by the Swiss Bankers' Association and the World Jewish Congress to determine how account-holders should be reimbursed.

Freeh may be trying to avoid investigating issue of campaign funds

Bungles, mishaps and tension dog FBI

The banner headline "Deep Freeh-Zed" in the tabloid New York Post last week referred to distinctly icy relations that have developed between Louis Freeh, the director of the Federal Bureau of Investigation, and the White House.

The immediate cause was a much less than whole-hearted endorsement for the FBI director from Mike McCurry, the White House spokesman. Asked if Mr Freeh was the right man for the job, Mr McCurry said simply that "he's the one in the job" and that the FBI director was leading the agency "as best he can".

This was caused by persistent leaks, although no public statement, from the FBI in recent weeks that Mr Freeh wanted an independent counsel to investigate White House fund-raising, a call which Janet Reno, the attorney general, finally rejected last week.

Mr Freeh's behaviour has been more than a little puzzling. Since the former FBI agent, federal prosecutor and judge took over in 1993 from the disgraced William Sessions, the FBI has travelled a rocky road. Unfavourable comparisons have been drawn with the bureau's sometimes murky heyday under J. Edgar Hoover.

Freeh: FBI director pushing for an independent investigator AP

Since Mr Freeh took over there has been:

- the disaster of the Branch Davidian siege in Waco, Texas;
- a blistering report on the quality of forensic evidence from the FBI's crime laboratory;
- the slandering of the hapless Richard Jewell, the security guard who spotted the Atlanta Olympic bomb;
- the bureau's destruction of an internal critique of its mishandling of the Ruby Ridge siege in 1992 when agents shot dead a mother and her daughter;
- the revelation that one of its agents spied for Moscow.

There have been successes too, but also repeated tension with the White House over the political party campaign funding issue. And despite Ms Reno's clear-cut statement last week that there was no case to answer over fundraising calls from the White House, Mr Freeh was apparently insisting that an independent counsel should be appointed.

What, therefore, was Mr Freeh doing? The answer may lie simply in his determination to get the FBI out of the business of itself investigating the campaign funds issue.

Over the years, whenever tha agency has tangled with politics – notably under Hoover and under Patrick Gray, when the FBI allowed itself to be involved in the Watergate cover-up – it has tended to be the loser. The appointment of an independent counsel would still see FBI agents working on the investigation, but crucial decisions about prosecutions would be out of its hands.

And while on the extremely narrow issue of President Bill Clinton and Vice-President Al Gore's phone calls there appears to be no case for an independent counsel, there may well be a case for one to investigate some of the myriad other aspects of the controversy. To date, these appear to involve lesser figures than the president and vice-president. But those inquiries may yet lead back to the White House.

Mr Freeh's as yet undisclosed memo to Ms Reno therefore seems to have been as much about ensuring that the attorney general did not close off that possibility as about any serious attempt to persuade her to appoint an independent investigator over the White House calls.

Hence the odd spectacle of Mr Freeh appearing to push for such an appointment – only then to declare publicly that he "fully respected" Ms Reno's decision not to do so.

Mr Freeh may be on the way to achieving his aim. Tha attorney general has now said publicly that an independent counsel could yet be appointed to examine other aspects of the affair, and she stated clearly at the weekend that no-one has been "exonerated" as a result of last week's decision. Asked if the White House "is not out of the woods", she said: "That's correct."

The first test will come today when both the FBI director and the attorney general are called before the House governmental affairs committee which wants them to "explain the differences" between them. The committee may well find there are now remarkably few.

Nicholas Timmins

NEWS DIGEST

Tobacco files to go public

A US congressional committee said yesterday it planned to release confidential tobacco industry documents to the public in the next few weeks before lawmakers returned from recess to begin formal consideration of the proposed $368.5bn tobacco settlement next month.

Speaking at hearings on the proposed settlement, Tom Bliley, chair of the House commerce committee, said he had subpoenaed the documents last week from four leading cigarette manufacturers, and they would now be scrutinised by a bipartisan congressional committee before being released to the public.

Mr Bliley, traditionally a strong supporter of the tobacco industry, issued the subpoenas after the companies had refused to submit the documents voluntarily. The papers are expected to shed more light on the contentious question of how much and when tobacco companies knew about the addictive qualities of nicotine in their marketing and research campaigns. Most relate to the Liggett group, which has already settled with state attorneys-general. *Mark Suzman, Washington*

- Imperial Tobacco, Canada's largest cigarette maker, has withdrawn its sponsorship of sporting and cultural events in the face of uncertainty over government legislation to limit tobacco companies' ability to promote themselves at motor sport events, tennis matches and music festivals. *Scott Morrison, Toronto*

■ PANAMA

El Niño to curb canal use

The Panama Canal Commission has said draught restrictions on ships using the canal now seem inevitable next year because of water shortages caused by the El Niño weather phenomenon.

A commission meteorologist said El Niño – the periodic warming of the eastern Pacific ocean, affecting weather around the globe – had made last month the canal's second driest November on record, continuing a prolonged spell with less rain than usual. The level of Gatun lake, which controls the canal's water supply, is one metre above the level at which restrictions would be needed. *James Wilson, Panama City*

■ WAR CRIMES

Canada plan for extradition

Canada is preparing legislation that would enable authorities to extradite suspected war criminals to stand trial before international tribunals. Ottawa can extradite suspects to countries with which it has signed a treaty, but the country's laws do not allow it to send suspects to the International War Crimes tribunal in The Hague.

The new legislation, likely to be tabled in early 1998, would apply mainly to modern-day war criminals from countries such as Somalia, Bosnia, Iraq, Afghanistan, Haiti, Ethiopia, Guatemala, Rwanda and El Salvador. Hundreds of suspects have entered Canada knowing they cannot be extradited to an international tribunal.

About 70 such people have already been removed from Canada, but it is thought that more than 300 death squad members, torturers and individuals accused of genocide remain in the country.

Canada has faced strong criticism for failing to bring suspected Nazi war criminals to justice following the second world war. *Scott Morrison*

Argentina struggles for an accord on labour reform

But outgoing minister may have better luck seeking treasure

Some government ministers quit to spend more time with tbeir families. But Armando Caro Figueroa, Argentina's outgoing labour minister, has other ideas.

Last week he said be wanted to search for treasure rumoured to have been buried by Jesuit missiooaries in his native province of Salta.

Perhaps this Indiana Jones-like quest will prove more fruitful than his attempts to broker a deal on labour reform between unions and employers. Efforts to modernise the country's antiquated labour laws have probably occupied more governmeot time, to less effect, than any other issue.

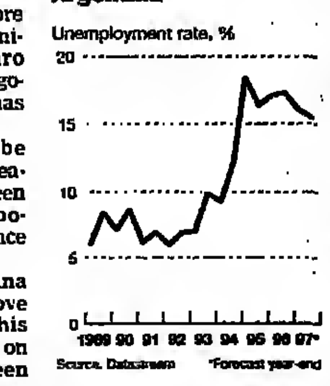
Last year President Carlos Menem tried to by-pass Congress and push through reform by decree, only to see the proposals blocked by the courts.

This year the governmeot sought to seduce employers and unions into a consensus, but business leaders saw their agenda sidelined in the tripartite talks.

Frustrated at the lack of progress, Mr Caro Figueroa threatened the unions with a fresh attempt to impose change by decree, damaging his already poor relations with organised labour. Last month, the demoralised minister stopped attending cabioet meetings altogether.

Argentina

Unemployment rate, %



Source: Datastream *Forecast year-end

Despite the false dawns, Argentina last mooth promised the International Monetary Fund that it would seek to pass a labour reform package by oext June as part of deal for a three-year, $2.8bn exteoded fund facility.

Local analysts argue that with Argentina facing slower growth oext year as a result of the global financial turmoil, tbe need for reoewed structural reforms has become more urgent. Increasing labour flexibility would be "a good signal for investors," said Raúl Buonuome of Deutsche Morgan Grenfell.

The framework of labour laws goes back to the corporatist state created under the 1946-55 rule of General Juan Domingo Perón. Employers bave heen pushing for changes in five main areas: collective bargaining; redundancy payments; healthcare contributions; automatic renewal of lahour accords; and flexihility in contracts.

This ageoda looks well-nigh impossible for the government to meet. In spite of ushering in a wave of privatisations and economic liberalisation since 1989, the ruling Peronist party retains strong links with union leaders and a rhetoric of worker solidarity.

The Peronist old guard does not share the enthusiasm for sweeping away labour market rigidities of Roqne Fernández, the finance minister.

Adding to the difficulty of getting reform through Congress, the opposition Alliance, which groups the centrist Radical party and the centre-left Frepaso, says it will oppose any changes that add to joh insecurity.

Giveo the delicate balance of political forces, few analysts expect deep reforms, at least in the short term. "We expect that some... agreements may be achieved," said Mr Buonuome. But cutting away at the entrenched power of the unions or fully deregulating bealthcare would probably require an agreement hetween Mr Menem and the opposition.

Unemployment has fallen gradually from its May 1995 peak of 18.4 per cent, dipping to 16.1 per cent this May. A further fall, to about 14 or 15 per cent, is expected in new figures due out this month.

The stubbornly high headline rate has not reflected accelerating joh creatioo, with 528,000 jobs created in the 12 months to October, according to labour ministry estimates.

Many of those new jobs have been on flexible terms as employers have taken advantage of widespread job insecurity.

But as the economy slows from this year's growth rate of about 8 per cent, the pace of job creation is likely to slacken and Argentina could face rising social tensions.

Antonio Erman González, appointed last week as labour minister, said he wanted to secure a consensus between unions and employers on reform.

He has a reputatioo as a tough negotiator. But there may well be times in the months ahead wheo he wishes he were out hunting buried treasure with his predecessor.

Ken Warn

Peru details mutual funds plan

By Sally Bowen in Lima

President Alberto Fujimori of Peru has announced further details of a programme designed to benefit retired Peruvians and public sector employees.

A fund initially comprising $500m-worth of shares retained by the state following privatisattons will be made available from Marcb next year. Marketing starts in January and 200,000 pensioners will be the first potential beneficiaries.

Three mutual funds will be selected to handle the "certificates of participation" whicb participants will receive. A cash down payment is required equivalent to 5 per cent of the face value of the certificates, which is set at ahout $1,100. There will be a 30 per cent discount on the value of the package selected. Tbe scheme will be widened to include around 600,000 public sector employees and the total value of shares included could eventually reach $1.3bn. Mr Fujimori said eventual listing of the hitherto untraded sbares would give fresh impulse to the development of Peruvian capital markets.

Shares in six former state-owned companies, all now controlled and managed by the private sector, will comprise the initial "source fund". These are the electricity distribntion and generation companies Edelnor, Luz del Sur and Edegel, Banco Cootinental (in which Spain's Banco Bilbao Vizcaya has a half share), Telefonica del Peru and Cementos Norte Pacasmayo. All enjoy a degree of liquidity, but oew shares would be listed only gradually so as not to distort the local stock market, Mr Fujimori said.

The creation of a housing fund was announced simultaneously by the presideot. Called Mivivieoda ("my home"), this aims to assist the construction and purcbase hy middle-incoma Peruvians of 50,000 bouses. The state will put up 1bo new sol ($370m) to launch Mivivienda, taken from Fonavi, a long-estahlisbed bousing fund financed through a payroll tax.

Beneficiaries will be credit-worthy Peruvians who do not own a house and who contributed to Fonavi. They will be required to put up 10 per cent of tbe value of the house.

Companies confident that prime minister will limit employers' recognition obligations

Employers sense victory on union rights

By Robert Taylor, Employment Editor

The Confederation of British Industry, the biggest UK employers' lobby, is increasingly confident it has convinced Tony Blair, the prime minister, to limit government plans to strengthen trade union power through recognition rights from companies. The CBI believes Mr Blair is moving towards its view that legislation should ensure union recognition does not threaten competitiveness or provoke industrial conflict.

John Cridland, the CBI's human resources director, said: "The government is listening to us. We and Mr Blair share common objectives. We remain opposed to union recognition on principle, but if we can't get the government to drop the idea we are confident our specific demands on detail will be met."

Mr Blair is understood to want most employees in a bargaining unit to agree in a secret ballot to recognition before it could be introduced. He rejects the Trades Union Congress view that only most of those voting in a ballot would be needed to secure recognition.

John Monks, general secretary of the TUC, said he would be "very disappointed" if the government did not accept the TUC line on recognition, but union leaders fear Mr Blair is moving towards acceptance of the CBI position. In an agreed statement yesterday the CBI and the TUC set out their positions they will discuss today with Margaret Beckett, the chief industry minister. The government will publish a policy paper on recognition early next year with the prospect of legislation in the 1998-1999 parliamentary session.

The CBI wants:

- Trade unions to "demonstrate" 30 per cent support from employees in a bargaining unit before a recognition ballot can be held.
- Small companies to be exempted.
- The employer to decide the size of the relevant bargaining unit.
- Training to be excluded from collective bargaining.
- Individuals free to agree their own terms and conditions with employers even if they work in units covered by union recognition.
- Disruption in pursuit of union recognition deemed "inappropriate".
- Employers allowed to call a union derecognition ballot where 30 per cent of employees "demonstrate" they want one.

The TUC opposes all CBI demands. Both sides accept recognition agreements must be "voluntary wherever possible" with "an effective infrastructure" supervising procedures. The TUC would resolve inter-union disputes over who should seek recognition; a comparable claim could only be made three years after the previous one failed; ballots would be independent; and no "punitive sanctions" for "non-compliance".

UK NEWS DIGEST

Gulf payouts delay opposed

Debate on compensation for victims of illnesses linked to the 1990 Gulf War should not await the outcome of medical research, the Parliamentary Office of Science and Technology said yesterday.

The office, which gives independent advice to MPs, said extensive studies under way in Britain and the US would produce better understanding of "Gulf War Syndrome". "But they will not answer definitively the question of interest to most individuals, i.e. 'What is behind my own symptoms and can I trace it back to my Gulf War service and prove cause and effect?'" the report said.

It added: "Debate on the adequacy and nature of the various current compensation schemes may therefore need to be independent of the current research programmes and their outcome." The Ministry of Defence has received notices from 1,465 Gulf War veterans who intend to claim compensation for Gulf-related illnesses, but no actual claims. *Alexander Nicoll, London*

■ RAIL PRIVATISATION

Railtrack may invite state stake

Shares in Railtrack, the privatised rail infrastructure company, rose 21 pence to £11.12 at one point yesterday after the company announced it was in the early stage of discussions with ministers about the government taking a minority holding. The shares later fell back to £10.94, a rise of 3 pence on the day. Analysts expressed doubts about whether it would ultimately prove practical for the government to take such a stake but some said it would be welcome as cementing relations between the parties.

This appears to have outweighed fears that a shareholding would allow the government to meddle in Railtrack's commercial affairs and damage its business. The shareholding proposal is understood to have emerged after Railtrack expressed an interest in managing the infrastructure of the London Underground railway. The government is reviewing how best to bring private capital into the Underground. The Labour manifesto ruled out the "wholesale privatisation" of the Underground, and a government stake in Railtrack might make it easier for ministers to claim the government was retaining a say in running the Underground. *Charles Batchelor, London*

■ OPENCAST MINING

MPs criticise restriction moves

The government is facing growing internal opposition to any tightening of the planning restrictions on opencast coal mining designed to protect jobs in deep mine pits.

Several English Labour backbench MPs have privately criticised the move, which they argue would threaten opencast jobs without safeguarding deep mines. The government would also face stiff resistance in Wales, where there are 1,300 opencast jobs in areas of high unemployment. Critics argue that restricting opencast production would merely lead to increase coal imports. "It would transfer jobs to Colombia not Yorkshire," said a mining area MP. *David Wighton and Simon Holberton, London*

■ RETAILING

Sales growth slows

The British Retail Consortium reports today that the value of retail sales rose by 1.1 per cent in November, the slowest rate for a year and a half. The three-month rolling average also points to a marked slowdown.

"The extent of the slowdown is surprising," said Andrew Sentance, chief economic adviser to the BRC. "These figures provide the clearest indication yet that slower consumption growth is on the cards for next year."

The BRC's downbeat findings come a day after the Office for National Statistics reported an unexpected fall in manufacturing output during October. Factory production fell hy 0.2 per cent, which prompted the ONS to cut its estimate of the underlying trend increase to just 1 per cent a year. *Robert Chote, London*

■ COMMERCIAL VEHICLES

Iveco Ford confident of recovery

Iveco Ford, locked in a battla for market leadership with Leyland Daf, believes the UK truck market is recovering. Sales plunged at tha start of the year hut the November figures suggest that demand is buoyant.

"It looks like the truck market is going to finisb up at 46,000-47,000 units, less than 10 per cent below last year's 52,000. After the last, dreadful winter we had been fearing it might not go over 44,000," said Nigel Emms, the group's external relations manager. He was commenting on Society of Motor Manufacturers and Traders' statistics showing that registratious of trucks over 3.5 tonnes jumped by 38.2 per cent in November. However, the industry pointed out that the increase is misleading, because the previous November's sales had been artificially depressed by the introduction of stricter exhaust emissions standards. The SMMT figures show that November's jump still left the truck market 11.4 per cent lower for the first 11 months of the year as a whole. *John Griffiths, London*

UK truck registrations: November 1997

	Nov 1997 Volume	Nov 1997 % change	Nov 1997 % share	Nov 1996 % share
Total	4,360	38.2	100.0	100.0
Imports	2,796	38.8	64.1	63.9
Leyland Daf (Paccar*)	900	58.6	20.8	18.6
Iveco Group** (Fiat)	751	40.4	17.2	17.0
Mercedes-Benz (Daimler Benz)	0	-100.0	0.0	13.9
Volvo	423	-25.1	9.7	17.9
Scania (Investor)	658	32.7	15.1	15.7
MAN	332	67.7	7.6	6.3
ERF	250	38.1	5.7	5.7
Renault	225	158.6	5.2	2.8

Names in brackets indicate ownership * Paccar also owns Foden
** Includes Iveco, Ford and Seddon Atkinson
Source: Society of Motor Manufacturers and Traders; industry estimates

Manufacturers sit out storm over sterling

Several Asian companies with well-established operations defy economic turmoil

Britain's efforts to continue its strong record in attracting inward manufacturing investment are being hampered by a combination of economic turmoil in east Asia and the strong pound.

The spurt in sterling in the past year, which cuts into UK competitiveness by increasing the cost of exports, has started to damage the UK's general attractiveness as a place for setting up export-oriented production bases, according to trade officials.

In particular, companies from Germany, a strong investor in the UK in recent years, are rethinking new projects, a German government official said. "Sterling's strength means some [inward investment] projects that would have gone ahead are less likely to happen."

Samsung said late in November that it was putting on hold a £450m ($751.5m) investment near Newcastle upon Tyne in north-east England, with just £100m of the cash spent. The plant had been due to employ 3,000 staff by the end of the century, making a range of goods including microwave ovens, computer monitors and fax machines. The announcement was linked directly to the turmoil in Korea.

Samsung's decision came a few weeks after the company's industrial equipment subsidiary decided to shut down an excavator factory in Harrogate in northern England with the loss of nearly 100 jobs. Meanwhile, Hyundai has run into difficulties financing a £3bn semiconductor production project near Glasgow in Scotland.

But so far there are few signs that non-UK companies with established British manufacturing operations are ready to reduce their commitment.

A case in point is Komatsu, Japan's biggest construction equipment company, which runs a large excavator factory in Birtley, near Newcastle upon Tyne. The plant this year is expected to make a record number of 2,000 machines, mainly for export to the rest of Europe, with a value of about £130m.

The UK operation is run largely independently of Komatsu's head office and is therefore unaffected hy any economic problems in Asia, according to Keith Tipping, UK managing director of the company's UK activities. "We make our own decisions and fund our own investments," he said.

Komatsu spends about £5m a year at its UK plant on investment projects including product development and new tooling.

It is a similar story at Japanese printer maker OKI, which has a large plant in Cumbernauld, near Edinburgh. The company is investing some £10m in a European-wide warehousing operation on the back of efforts to expand its market share. "The problems in Japan have not significantly affected us," said Chris Gill, UK managing director. "Currencies are part of the ebh and flow of short-term events, while we plan long-term."

Japanese electronics manufacturer Hitachi, which has a plant in Hirwaun, south Wales, employing 500 people making TVs, said there was no reason to change its UK manufacturing strategy. "Our investments are in place and it is business as usual," the company said. At LG, a Korean industrial group planning a £2bn semiconductor and electronics operation in Newport, also south Wales, an executive said tbere would be "no delays" to the project. The scheme, one of the biggest inward investment projects in Europe, is expected to create nearly 4,000 jobs by around the end of the ceotury, of which some 600 are already in place.

UK government officials charged with promoting inward investment can also gain solace from a spurt in interest from companies from Taiwan – an Asian "economic tiger" which so far has heen spared the worst effects of the region's economic difficulties and which has a large number of medium-sized husinesses particularly in computer-related fields that are intent on European expansion.

Britain is a prime target because of the strength of the country's personal computer manufacturing, particularly in lowland Scotland.

"It's not really a question of whether the Taiwanese companies want to come to Britain – tbey bave to because their customers such as IBM and Compaq are requesting that they come here to set up plants for products such as power supplies and display monitors," said a Taiwanese industrial adviser.

Peter Marsh

'Silicon Glen' in Scotland attracts investors

Dutch bank to enter payments system

By George Graham, Banking Editor

ABN Amro, the Dutch bank, is to become a member of the UK's "Chaps" high value payments system. Membership of Chaps (Clearing House Automated Payment System) will allow tbe bank to make instant payments in sterling and, after the launch of monetary union in 1999, euros.

ABN will be only tha fourth non-UK bank to become a Chaps member, following Citibank of the US, Germany's Deutsche Bank and France's Crédit Lyonnais. Even though the UK will not be joining monetary union in the first wave, the Association of Payment Clearing Services, the industry grouping which coordinates hoth wholesale and retail payment services in the UK, is determined that Chaps will be able to make euro payments from the start of Emu.

Some smaller European countries are even considering using the UK's Chaps system as their principal channel for euro payments.

Although payments have long been considered a basic banking utility, the husiness of offering global payments services to multinational companies bas become increasingly competitive, with prices dropping steadily over the last five years.

Many leading international hanks believe that only a handful of large players will be able to continue to compete in this area.

Erik Post, senior executive vice president for global transaction services at ABN, said Chaps membership "demonstrates the bank's commitment to enhancing its position as one of the top five global providers of transaction services".

The decision to join Chaps involves considerable investment in information technology connections. ABN said it reinforced its commitment to London as a major financial centre after Emu.

Chaps is the largest real time payment system in the European Union, handling an average 70,000 payments, worth £150bn each day.

The European Monetary Institute is establishing the Target system, linking national real time payment systems through local central banks.

But Target is expected to cost between 1.5 and 3.0 euros per payment, leaving room for cheaper national payment systems to attract business from banks. The Ecu Banking Association is proposing a tariff of 0.5-0.8 euros for its payment system. This settles up the net amounts banks owe each other at the end of the day, rather than making gross payments in real time throughout the day.

$3m state aid may have sealed factory deal

A £2m ($3.3m) state grant to a Taiwanese company may have persuaded it to open a computer monitor factory in northern England, Ian McCartney, a junior industry minister, said yesterday.

The £10.5m development by ADI Manufacturing UK, an offshoot of ADI Corporation of Taiwan, will be the first ADI manufacturing plant outside Asia.

Witbont the grant, said Mr McCartney, "there was a real possihility tbe firm would bave established a plant elsewhere in Europe instead or set up a warehousing facility for the distribution of monitors imported from the Far East".

One of the world's top 10 monitor-makers, ADI employs 3,000 people and has plants in Taiwan, China and Thailand. Its annual sales total nearly £600m, almost half in Europe. Commenting on the ADI move, county council economic development chairman Stuart McKellar said: "The strong links we have developed with Taiwan makes them especially welcome. We have been in contact with ADI for over three years."

Farmers' union backs blockade over cheap beef

By Alison Maitland in London

Tbe National Farmers' Union yesterday gave official backing to blockades at UK ports against imports of cheap beef. Sir David Naish, union president, said farmers demonstrating within the law to stop cheap imports of beef from the Republic of Ireland and mainland Europe were "supporting a most important cause".

The protests, and the continuing European Union ban on British beef exports, are expected to be on the agenda wben Jack Cunningbam, agriculture minister, meets Franz Fischler, the EU farm commissioner, in London today.

Sir David said the government could resolve the problem "overnight" by applying to the European Commission for £980m ($1.63bn) to compensate farmers for tbe sharp rise in tbe pound, which has cut EU support payments.

Mr Cunningham is considering ways to target aid at hill farmers, who depend on cattle and sheep. But tbe Treasury is strongly resisting any increase in puhlic spending.

Tony Pexton, deputy president of the union, said free trade should be permitted, hut he sanctioned protests "if farmers are allowed hy the authorities to talk to lorry drivers and convince them they ought to turn and go home".

Tbe statements came in the middle of what was described as a "furious and anxious" meeting of the union's 45 county chairmen in London to discuss a 47 per cent fall in farm incomes this year. The NFU today launches a £150,000 newspaper advertising campaign asking people to back farmers by buying UK produce and signing a petition to the governmeot.

Tbe heigbtened demands for emergency aid for the industry followed a week of demonstralions at ports around the country. NFU leaders were initially concerned tbe protests would alienate the puhlic hut now see tbem as an effective weapon.

Union leaders in the south-west plan to picket Poole harhour in Dorset today to stop beef and milk from France. They have invited Mr Cunningham to a rally of farmers and workers in Devoo next Mooday.

Unionists urge stronger British-Irish agreement

By John Murray Brown in Belfast

David Trimble, leader of the Ulster Unionist party, yesterday urged the government of the Repnhlic of Ireland to strsngthen the relationship between the republic and the UK as part of a settlement at the Northern Ireland talks. The Ulster Unionists are the largest pro-British party in Northern Ireland.

He said the east-west relationship "dwarfed" any new institutional linkages that might be created between Northern Ireland and the repnhlic. Bnt the governmsnt of the repnhlic believes the north-sonth links will be essential to win nationalist acquiescence to any outcome that leaves the north within the UK.

"Tbe existing flawed Anglo-Irish agreement should be replaced by a genuinely British-Irish agreement," Mr Trimhle said.

The Ulster Unionists' idea of a Council of the British Isles has received broad support from Mo Mowlam, chief Northern Ireland minister in the UK government. The body would represent the interests of both British and Irisb governments and future UK regional assemblies including Northern Ireland's.

- Formation of a hreakaway nationalist group, the 32 County Sovereignty Committee, was announced yesterday. Bernadette Sands, sister of Bohby Sands, the IRA hunger striker wbo died in 1981, told RTE, the Irish state broadcaster, that the new gronp would "attract nationalist-minded people from right across the board".

TECHNOLOGY

The withdrawal in the UK of a promising diabetes drug is a blow for sufferers worldwide, **Victoria Griffith** reports

Bitter pill for insulin users

Glaxo Wellcome's decision to withdraw Troglitazone from the UK market is a significant blow, not just to sales of the drug, but also to the hopes of diabetes sufferers worldwide anxious for innovative treatments.

Troglitazona – discovered by Sankyo in Japan and known by the brand names Noscal there, Rezulin in the US and Romozin in the UK – is one of a new class of drugs called "insulin sensitisers", that were hailed as a promising weapon against diabetes before Glaxo's announcement.

"The insulin sensitisers are state-of-the art for this disease," says Camilo Leslie, professor at the University of Miami's Diabetes Research Institute. "There is very little else in the pipeline."

Glaxo Wellcome suspended marketing of Romozin because of a higher-than-expected incidence of liver malfunction in 1 of 370,000 patients taking the tablets.

The US Food and Drug Administration has allowed sales in the US to continue, but has warned users to monitor closely the drug's side-effects.

The pills, administered to 600,000 American patients, have proved enormously successful since their March approval in the US, where they are marketed by a division of Warner-Lambert.

Questions about Troglitazone have now thrown a shadow over the entire class of insulin sensitisers. Researchers and patients had been excited about what looked like a reasonably full pipeline of new products.

Sugen and Ligand, the US-based biotechnology companies, are working on insulin sensitisers, with Ligand in phase II clinical trials. Some scientists also include Glucophage, the Bristol Myers Squibb drug licensed from Lipha, the French group, and introduced in the US in June, in the category, although the exact mechanism of that product is unclear.

Rising rates of diabetes in the US have added urgency to the drug controversy. At the end of October, the Centres for Disease Control in Atlanta warned that the disease was turning into a national epidemic, with a record 16m Americans diagnosed.

Higher levels of obesity and an ageing population are thought to be the main causes. The disappointment over Troglitazone is exacerbated by the recent suspension of Fenfluramine, the *obesity drug popularly known as fen-phen*, which many diabetics were using to control their weight.

Insulin sensitisers present a new way of treating diabetes, because they address the underlying causes, rather than merely the symptoms of the disease. Diabetes impairs the body's ability to convert sugar (glucose) to energy. Insulin is the hormone that normally allows this conversion to take place.

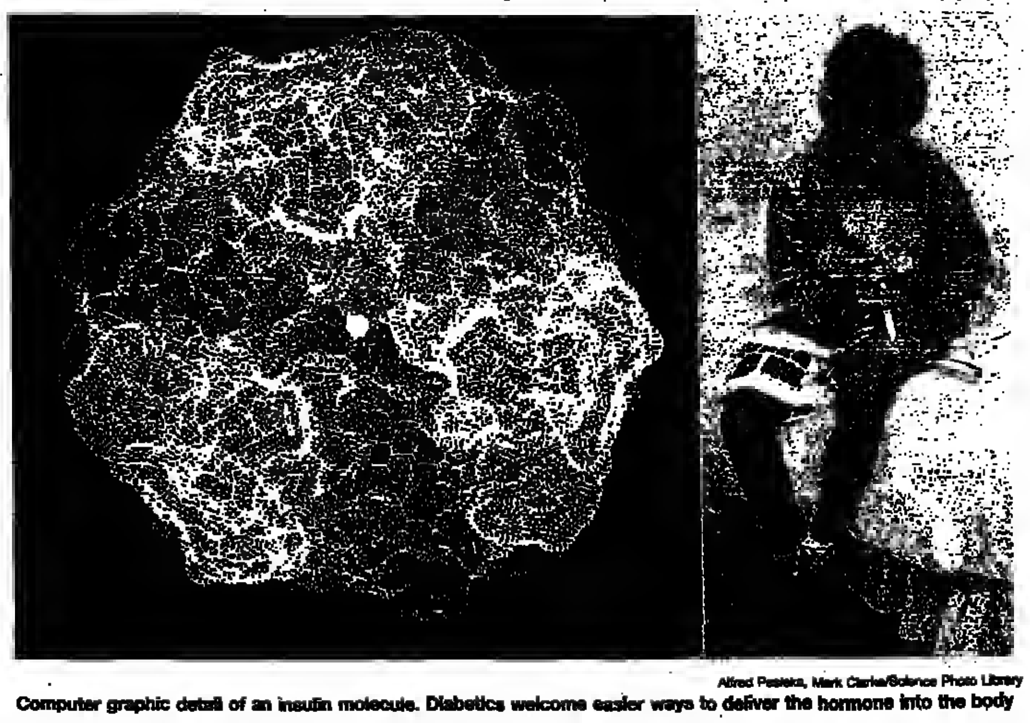
Traditionally, treatments for *the disease* have focused on increasing the amount of insulin in the body. Pills marketed by companies like Hoechst, Novo Nordisk, Upjohn and Pfizer boost production of the hormone. This makes sense for those with Type 1 diabetes, an auto-immune disease that strikes adults and children. In Type 1 diabetes, the body's immune system becomes confused and begins to destroy its own insulin-producing cells.

It was long believed that Type 2 diabetics, who contract the disease *in adulthood, also* suffered from insufficient insulin production. Scientists now believe, however, that Type 2 patients have normal or even above normal supplies of the hormone; their bodies simply fail to make proper use of it. Insulin sensitisers address this problem by making the body more receptive to the hormone.

Troglitazone, discovered by serendipity before scientists understood much about the way it works, stimulates specific nuclear receptors in liver, muscle and fat cells that regulate the production of insulin-responsive genes.

Ligand hopes to improve on the drug by adding another, similar receptor to the mix. "We believe a two-sided approach will prove even more effective," says Andres Negro-Vilar, chief scientific officer of the company.

Insulin sensitisers are not the only diabetes drugs under research. The biotechnology group Megabios is developing gene therapy approaches to the disease. At the end of October, researchers at Massachusetts General Hospital said they had identified a new set of genes responsible for diabetes, paving the way for more progress. Yet genetic therapy approaches and treatments based on the MGH discovery are probably at least a decade from the market.



Alfred Pasieka, Mark Clarke/Science Photo Library

Computer graphic detail of an insulin molecule. Diabetics welcome easier ways to deliver the hormone into the body

Researchers have not given up on the insulin sensitisers. "The number of people with liver complications from the disease in the UK was low," says Simeon Taylor, head of the diabetes department of the US National Institutes of Health. "I'm not saying the product should not have been pulled. But it may turn out to have a side-effect that strikes few patients."

Insulin sensitisers have exhibited unwanted side-effects in the past. Two promising drugs, Ciglitazone and Pioglitazone, were dropped from research because of toxicity and neurological defects.

One of the main challenges in fighting diabetes is that it is often not taken seriously. "It's a chronic disease, which by definition means it is not usually immediately life-threatening," says Rubin Bressler, a professor of medicine at the University of Arizona. "Toxicities in drugs to address it are not much tolerated by regulators or patients."

Hard-to-change lifestyles complicate matters; many diabetics fail to exercise more and eat fewer sweets, even after diagnosis. Because sufferers may not feel ill in the disease's early stages, the temptation to delay treatment, or fail to comply with recommended regimens is strong.

The long-term consequences of diabetes, however, can be dire: blindness, neurological problems, liver failure and, in a number of cases, death. That, and the growing incidence of the illness, has turned the search for treatments into a high-stakes match.

Crunch time for global mobiles

Satellite phone networks face a battle for frequency space, **Bruce Dorminey** reports

Over the next five years, 40m peopte are expected to pick up new hand-held satellite phones that can be used anywhere in the world. For network operators, it could be a bonanza – bnt also a headache.

A battle is looming over the allocation of frequency spectrum that the services will need to operate. Three separate gtobal satellite *communications consortiums* – Iridium, Globalstar and ICO – are each betting billions of dollars on systems that will operate virtually side by side on very narrow electromagnetic real estate.

They will be jostling for position in a freqnency range that lies roughly between the operating spectrum of conventional radar and a typical microwave oven (or 1-3 gigahertz).

According to experts, the qnestion is not whether there will be a sqneeze on allocated freqnency spectrum – but when. "The allocation *to* Iridium and Globalstar is so limited that we're very concerned abont interfering with each other," says John Klineberg, executive vice-president of Globalstar programmes at Space Systems Loral.

"Until recently that was rather straightforward because everybody was in the same geosynchronous [or *geographically fixed] orbital location* country by country." Now developments in satellite technology have changed the picture, he says.

With 32 of its 66 low earth orbit satellites (LEOs) already in place, the $4.7bn (£2.8bn) Iridium system will fly in a constellation (or co-ordinated orbital pattern) 780km up. By 1999 it will allow subscribers to communicate via hand-beld pagers and phones from virtually anywhere on earth.

Globalstar, meanwhile, launches the first four satellites of a $2.5bn *48-satellite LEO constellation from* Florida's Cape Canaveral in February. Orbiting 1,400km above the earth, the system will deliver service through existing wireline and cellular systems *to most* of the *world's populated areas*, and should be fully operational by the end of next year.

Then to 2000, ICO Global Communications will send up a $1.4bn constellation of 10 satellites in a 10,355km middla earth orbit that will use both ground sites and satellites for total global coverage.

While such systems will take a few years *to* revolntionise telecommunications, they are already fuelling a firestorm among freqnency planners. Previously, explains Simon Dinwiddy, *frequency* co-ordinator for telecommunications missions at the European Space Agency, geostationary satellites were assigned frequencies country by country. Antennas pointing to a *geostationary satellite could use* the same frequency because antennas on the ground picked up only one satellite at time.

But with hand-held omni-directional satellite phones, once an assignation for a band has been made, that frequency is taken worldwide.

As demand increases, there will be more pressure to find technology to use existing spectrum better, because satellite voice commands at higher frequencies are subject to atmospheric interference. But techniques such as TDMA, FDMA and CDMA (time, freqnency and code division multiple access) mechanisms can help because they allow the stacking of signals on top of each other so that providers can share frequencies.

Still, the onus of frequency co-ordination ultimately lies with the Geneva-based International Telecommunications Union, even *though its effectiveness* in *treaty* enforcement is severely limited.

Last month's meeting of the World Radio Conference in Geneva brought that point home, as controversy grew surrounding the US *Federal* Communications Commission's auctioning of terrestrial services in the two gigahertz band.

That leaves ICO with no clear bandwidth for its services over US territory. Even though the consortium is appealing against the action, the FCC is offering ICO little alternative other than *to* help relocate the services that it would have to displace. As Henry Chasia, the ITU's deputy secretary-general, asks: who will pay the cost of relocation?

"It's not appropriate for mobile satellite systems to pay billions of dollars to relocate terrestrial systems to other frequencies, since the ITU agreed from the year 2000 that these freqnencies should be available for mobile satellite systems," says Bob Phillips, ICO's vice-president of regulatory affairs.

But, to theory, WORC rules say that operations must allow for new systems if they have been approved by a government that is party to the ITU. That means that to the future such global systems could be *forced to* cut back on services to accommodate newcomers, thus jeopardising the viability of everyone in the frequency.

"Even though there are dozens of proposed systems ont there, there is probably sufficient spectrum available now *to* accommodate the systems that are likely to come into operation within the next five years," says Mr Phillips. "But we will hit a spectrum crunch in 2003."

BUSINESSES FOR SALE

THIRD CALL FOR TENDERS FOR THE SALE OF THE ASSETS OF "VOLOS COTTON MANUFACTURING CO S.A."

ETHNIKI KEPHALEOU S.A., Administration of Assets and Liabilities, of 9a Chrysospiliotissis St. Athens 10560, Greece, in its capacity as Liquidator of "VOLOS COTTON MANUFACTURING CO SA" a company with its registered office in Nea Ionia, Volos, Greece, (the "Company"), presently under special liquidation according to the provisions of Article 46a of Law 1892/1990, by virtue of Decision 106/1997 of the Larissa Court of Appeal upon the instructions of the creditors representing more than 51% of the claims against the Company.

announces a third call for tenders

the the sale of the groups of assets of the company described below:

BRIEF INFORMATION

The Company was established in 1963 and was in operation in January 1996. On 18.2.1997 it was placed under special liquidation according to the provisions of Article 46a of Law 1892/1990. Its activities included the production and marketing of ginned cotton, cotton yarns and cotton waste.

GROUPS OF ASSETS OFFERED FOR SALE

1. Industrial plant in Nea Ionia, Volos, located in an area of 102,889 sq.m. approximately, part of which (16,057.5 sq.m.) has been incorporated in the city planning area, although the relevant implementation deed has not yet been issued.
   The surface of the buildings amounts to approx 52,000 sq.m. The plant's machinery consists of the following cotton ginning units:
   a. A 18468 bobbin spinning unit with a capacity of 8500 KG of NEB 30 yarn per 24 hours.
   b. A 32944 bobbin spinning unit with a capacity of 15000 KG of NEB 30 yarn per 24 hours.
   c. A 48864 bobbin spinning unit with a capacity of 10900 KG of NEB 31 yarn per 24 hours.
   d. An OPEN END (O.E.) 672 turbines unit with a capacity of 1600 KG of NEB 30 yarn per 24 hours.
   In addition, the Company's registered name, trademark, and receivables are also being offered for sale.
2. A 50.00% share of a plot of land covering approx 5 stremmas in Sykies, Community, Ag.Konstantinou, Lokrida Region. Legal proceedings concerning possession of the area are pending.
3. A 54/320 share of a plot of land, covering 7,500 sq.m. according to the ownership deeds and 5,558 sq.m. according to a recent estimate, in Patima, Community of Vrilissia, Attika Region.
4. A plot of land covering approx. 4,266 sq.m. according to the ownership deeds, in Tzirandhi, Municipality of Aharnes, Attika Region. This is situated near a stream. Hence, its use is subject to the restrictions stipulated in the Government Gazette No. 632/27.6.1994.

OFFERING MEMORANDUM - FURTHER INFORMATION:

Interested parties may obtain the Offering Memoranda in respect of the above Company upon signing a Confidentiality Agreement.

TERMS AND CONDITIONS OF THE AUCTION

1. The Auction shall take place in accordance with the provisions of article 46a of Law 1892/1990 (as supplemented by article 14 of Law 2000/91 and subsequently amended), the terms and conditions set forth herein and the "Terms and Conditions of Sale" contained in the Offering Memorandum. Such provisions and other terms and conditions shall apply irrespectively of whether they are mentioned herein or not. Submission of binding offers shall mean acceptance of such provisions and other terms and conditions.
2. Binding Offers: Interested parties are hereby invited to submit binding offers, not later than **Thursday, January 8th, 1998, 12.00 hours** to the Volos Notary Public, Mr George Kalomeras, No 100, 28th October St. Volos. Tel: 30+421+28364. Offers should expressly state the offered price and the detailed terms of payment (in cash or instalments, mentioning the number of instalments, the dates thereof and the proposed annual interest rate, if any). In the event of not specifying: a) the way of payment, b) whether the credited amount shall bear interest and c) the interest rate, then it shall respectively be deemed that: a) the offered price is payable upon execution of the sale contract, b) the amount credited shall bear no interest and c) the interest rate shall be the legal rate in force at the time. In all cases where the credited amount bears interest, this shall be calculated in relation to the outstanding amount and shall be payable on the dates of payment of each instalment unless otherwise stated by the bidders. Binding offers submitted later than the above date shall neither be accepted nor considered. The offers shall be binding until the adjudication. Submission of offers in favour of a third party to be nominated at a later stage shall be accepted under the condition that express mention is made in this respect upon submission and that the offeror shall give a personal guarantee in favour of such third party for the compliance of the obligations deriving from the sale contract.
3. Letters of Guarantee: Binding offers must be accompanied by a Letter of Guarantee issued in accordance with the sample Letter of Guarantee contained in the Offering Memorandum, by a bank legally operating in Greece, to remain valid until the adjudication. The amounts of the Letters of Guarantee are the following:
   (a) The Industrial Plant: Drs.TWO HUNDRED AND FIFTY MILLION (250,000,000.-)
   (b) 50.00% share of a plot of land: Drs.FIVE HUNDRED THOUSAND (500,000.-)
   (c) 54/320 share of a plot of land: Drs.SEVEN MILLION (7,000,000.-)
   (d) Plot of land covering approx. 4,266 sq.m.: Drs.TWO MILLION (2,000,000.-)
   The Letters of Guarantee shall be returned after the adjudication.
4. Submissions: Binding offers together with the Letters of Guarantee shall be submitted in sealed opaque envelopes.
5. Envelopes containing the binding offers shall be unsealed by the above mentioned Notary Public in his office, on **Thursday, January 8th 1998, 14.00 hours**. Any party having duly submitted a binding offer shall be entitled to attend and sign the deed attesting the unsealing of the binding offers.
6. As highest bidder shall be considered for each group of assets the participant, whose offer will be judged by the creditors representing over 51% of the claims against the Company (the "Creditors"), upon recommendation by the Liquidator, to be in the best interests of all of the creditors of the Company. For the purposes of evaluation, an offer to be paid in instalments shall be assessed on the basis of its present value to be calculated by employing a 15% annual discount rate.
7. The Liquidator shall give written notice to the highest bidders to appear on the date and place mentioned therein and execute the contract of sale in accordance with the terms contained in his binding offer and/or any other improved terms, which may be suggested by the Creditors and agreed upon. In the event of the highest bidder not complying with such obligation, the Letter of Guarantee shall be forfeited as a penalty. Adjudication shall be deemed to take effect upon execution of the contract of sale.
8. All costs and expenses of any nature, including any tax (such as V.A.T.), duties, custom duties, any charges in favour of the state or third parties, which may need to be paid (other than those exempted by the applicable law) in respect of the participation in the Auctions and the transfer of the assets offered hereby for sale, the sale contract, as well as any other act prior or subsequent to the transfer of assets shall be exclusively borne by the purchasers.
9. The Liquidator and the Creditors shall have no liability nor obligation whatsoever towards the participants in relation to the evaluation of the offers or the appointment of the highest bidder or any decision to repeat or cancel the Auctions. The Liquidator the Company or the Creditors shall have no liability for any legal or actual defects of the assets. Submission of binding offers shall not create any right for the adjudication nor the participants shall acquire any right, power or claim from this Call and/or their participation in the Auctions against the Liquidator and/or the Creditors for any reason whatsoever.
10. This Call has been drafted in Greek and translated into English. In any event, the Greek version shall prevail.

In order to obtain a copy of the Offering Memoranda and any further information please contact the Liquidator "Ethniki Kephaleou S.A. Administration of Assets and Liabilities", 9a, Chrysospiliotissis St, Athens 10560, Greece, Tel.: +30-1-323.14.84-7, Fax: +30-1-321.79.05 (attention of Mrs. Marika Frangaki), or the Liquidator's representative in Volos, Mr. Aristides Tsakaleas, Attorney at Law Antonopoulou St. No. 139, 38221 Volos, Tel.: +30-421-30316, Fax: +30-421-29373.

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CRISIS ELECTRONICS LIMITED

(In Administrative Receivership)

The Joint Administrative Receivers, Peter L Thurston and John C Reid offer for sale the business and assets of the above company.

The company supplies Hardware and Software products for computer backup. Turnover was £2.7 million in the six months ended 30 September 1997. The two principal businesses are:

Hardware

The Hardware business has developed a range of backup devices including tape, CD-ROM, optical and a patented DNA tape product. Devices are assembled at the company's leasehold premises and sold through distributors primarily in the UK.

Software

The software business has developed the "PC Bax" family of backup and disaster recovery software covering OS2, Win 95 and NT platforms. The principal markets for this software are currently Germany, Sweden and France where the sales are effected through subsidiary companies.

Offers are invited for each of the businesses, or for the two combined. It is anticipated that the overseas subsidiaries will be sold with the Software business.

Evaluation copies of the software and data sheets on the hardware products can be viewed on the internet:http://www.crisis.com.

For further information and a sales pack, please contact Peter Thurston or Christopher Gray on 01455 823611 or email: [illegible]

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Tel: 0113 289 4663. Fax: 0113 289 4473.

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Coopers & Lybrand

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- established used vehicle motor dealership
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For further information, please contact David Wilton or Doran Mills of Coopers & Lybrand, Temple Court, 35 Bull Street, Birmingham B4 6JT.
Tel: 0121 265 5826. Fax: 0121 265 5660.

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For Sale

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The sawline utilises circular saws and has a capacity of the order of 60,000m³ of sawn timber per annum. The sawmill also has a current kilning capacity of 30,000m³ per annum which can easily be expanded to utilise the spare capacity of the existing waste fire boiler plant of 3.5 MW capacity.

The sawmill is built on a 24 hectare freehold site, which is located within easy reach of ports where both sawn timber and residues are exported.

As well as the sawmill itself, the company has its own fleet of transport equipment for all products and by-products, some reprocessing facilities and an efficient, proven local workforce and management team.

There is ample room for expansion on site for manufacturing and production of sawn timber into finished products, ie furniture, glue-wood and numerous other wood products.

The principles wish to dispose of this business due to their need to concentrate on the continued growth of their core activities.

Interested parties should contact:

Group Chairman, Box B5603, Financial Times, One Southwark Bridge, London SE1 9HL

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On the instructions of the Joint LPA Receivers AD Conquest and MJ Scott of Grant Thornton

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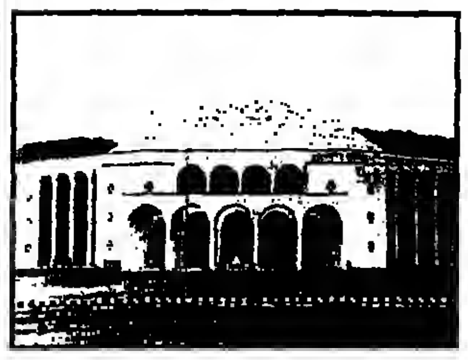

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Agents for the Noters

On the other side of the easel

William Packer reviews the pre-Raphaelite women artists

To the pre-Raphaalites and their followers, women, whether idealised as saints or heroines, demonised as the eternal temptress, or simply celebrated as wives, sisters, lovers, models, were an abiding interest and inspiration. But that has always been in large part true in all periods of art, and of most artists. The real point is that to speak thus of artists is to speak, with rare exceptions, only of men.

This is not the moment to rehearse the arguments of social history and engagé feminism concerning the subordinate place and restricted opportunities of women in society. But what is undeniable is that only in modern times, since more or less the middle of the last century, have women artists been emerging in increasing numbers, to achieve something approaching parity with men only within the last few years. The difficulty was always, indeed remains, for them to be taken seriously as artists in their own right. The twin dangers, of masculine condescension on the one hand and feminist special-pleading on the other, also remain.

Risking both dangers, it was therefore both brave and useful an idea, on the part of the curators, Jan Marsh and Pamela Gerrish Nunn, to look at a loose grouping of pre-Raphaalite women artists over that period of early emergence in any numbers. It is still easy, perhaps too easy, to be dismissive, for in several instances to make the case at all is to overstate it. Even so, *pace* Dr Johnson and his unkind example of a woman preaching, that so many of these paintings should have been done at all is extremely interesting. And at the risk of that very condescension, I have to say that more often than not they are surprisingly good.

In the particular instance of Evelyn de Morgan, wife of the poet and potter, William, it is a case almost of vindication of an artist whose work until now has been all but invisible, so overblown and ludicrous had it once seemed. In the context of this exhibition, the unkind superficiality of such a judgment is clearly wrong.

The general failing, if failing it is, is the general subjection even in the best of them to the clear influence of their male contemporaries, in whose orbit they often found themselves – Evelyn de Morgan and Maria Spartali to Burne-Jones; Rosa Brett to her brother John; Emma Sandys to her brother Frederick; Joanna Boyce to Millais; Elizabeth Siddall to Morris and her husband Rossetti; Lucy Madox Brown also to Rossetti, who was her brother-in-law; Eleanor Brickdale to Millais and Waterhouse.

There is, too, a literariness and an often mawkish, high-minded sentimentality to the work, which compounds this apparent lack of individuality. Even Julia Margaret Cameron, whose originality and reputation alike rest on her intuitive exploitation of the naw medium of photography, could not resist Tennysonian narrative as her material.

But the talent comes through. The death in childbirth in 1861 of Joanna Boyce, at barely 30, was a real loss to British art. Small in scale though it is, and intimate in its subject-matter, there is a freshness and assurance to her work quite at odds with her youth and domesticity. Emma Sandys too, dead of consumption in 1874 at only 31, has long rested in the shadow of her brother, her work often taken for his and only now being re-attributed to her, in her own right.

Evelyn de Morgan, perhaps not the best painter, is nevertheless the revelation of the show, for the sheer bravery and ambition of her work, large in scale and fraught with high moral purpose. She enjoyed considerable success in her lifetime (1855-1919), but if the symbolist narrative even of Burne-Jones should have long proved uncongenial to later taste, by how much more would her own have been forgotten. She deserves better than that.

But while we can admire Mrs de Morgan, we can actively enjoy "Melody" by Kate Bunce (1855-1927), a late but truly Rossettian siren from the 1890s, and warm even more to the Waterhousian idylls of Eleanor Brickdale (1872-1945). Hers was not alone in being a name new to me, but of all of them, it was the one I felt I should have known. She enjoyed a long career that continued successful into the 1930s, and is represented here by a surprising number of spectacular examples from around the turn of the century. Which would one take: her Burd Helen in the wood disguised as "The Little Foot Page"; the wistful "Ugly Princess", looking down upon flirting lovers from her dark loft; the flamboyant set-piece of Silvius courting Phebe in *As You Like It*, "The Pale Complexion of True Love"? I'd have all three.

I also covet Rosa Brett's small unfinished garden tree and also the exquisite "St Elizabeth of Hungary" at her *spinning-wheel*, by Marianne Stokes (1855-1927), wife of the painter Adrian and another artist too easily forgotten. This exhibition tells us, if nothing else, that such neglect is our loss.

Pre-Raphaelite Women Artists: Manchester City Art Galleries, Manchester until February 22, then on to Birmingham and Southampton; exhibition tour sponsored by Willis Carron Fine Art.

Not just the artist's muse but artists in their own right: 'Melody' by Kate Bunce, (1890s)

Opera/**Andrew Clark**

Fanfare for the common man

Hearing *Paul Bunyan* in the Suffolk village of Snape, where the Royal Opera unveiled its new production at the weekend, it was hard to avoid ghosts of the past: this is where the dying Britten attended rehearsals for the European stage premiere in 1976. But let's not get sentimental. Britten's first theatre work – variously described as his "American opera" or "choral operetta" – is an awkward patchwork, and no opera manager would touch it if the name on the score was different. The composer himself suppressed it for 33 years after its first performances in New York in 1941, and was only persuaded by his cronies to take it out of the drawer after the onset of his final illness.

Francesca Zambello's staging is a simple, low-budget affair which does not mask the work's weaknesses. Here are Britten and Auden trying to ingratiate themselves with their wartime hosts, aping American manners and falling mlaerahly. *Auden's pitch* at a vernacular style lurches between the over-dextrous and the prosaic; Britten tries on 100 different outfits, from blues to barber-shop, without ever sounding at home. Yes, there are some fascinating pointers to the mature Britten – these are the moments most suited to Richard Hickox's strait-laced conducting – but they remain no more than pointers. Unlike Weill, whosa Alabama Song in *Mahagonny* is more American than anything in *Bunyan*, Britten lacked the popular touch.

Bunyan is, in fact, the flip side of the moral coin to *Mahagonny*, but lacks its universality. In the invisible figure of Bunyan, legendary chief of the lumberjacks, it sanitises the story of America's birth, dressing him in the kind of exhortatory language we expect of a presidential speechwriter. Doubtless this bed something to do with the post-depression climate of Roosevalt's New Deal, and the fact that *Bunyan* was originally designed for Broadway – a Britten-Auden fanfare for the common man. Both were too fresh to tha American Eden to be cynical about it.

And the 26-year old Britten was already too sophisticated. In the first half especially, number after number lacks the necessary low-brow pizzazz. The only moments where Britten lives up to the popular idiom are Tiny's "Mother, oh Mother" – a melody of uncommon charm and simplicity – and the Tiny-Slim duet, breaking out of the "Great Day of Discovery" chorus with the same romantic otherworldliness as Nannetta and Fenton in the Act 2 commotion of *Falstaff*. Beautifully sung by Susan Gritton and Mark Padmore, these are the outstanding numbers in the Royal Opera's production.

Like *Polestrino*, another risky ensemble piece which opened the Royal Opera's year, *Bunyan* is the personal choice of the company's director, Nicholas Payne – and again, like *Palestrina*, his gamble does not quite come off. This seems unfair, for the cast is well-chosen – with an idiomatic ballad-singer in Peter Coleman-Wright, a refined Inkslinger in Thomas Randle and a beefy Halson in Jeremy White. Pamela Helen Stephen, Leah-Marian Jones and Nicole Tibbels maka a sexy female trio. The accents are convincing; chorus and orchestra are well-drilled.

What the performance needs, however, is showmanship – of the type briefly displayed in the telegram scenes, where the Western Union Boy (Henry Moss) dazzles the assembled company with his bicycla routines. It could also do with a subversive sense of humour: Hildegard Bechtler's drab set and Nicky Gillibrand's even drabber costumes make a depressing spectacle.

Paul Bunyan is worth seeing once. The Royal Opera's staging arrives at London's Shaftesbury Theatre tomorrow for five performances, but transatlantic travellers should note that New York City Opera is restaging the acclaimed Glimmerglass production in the spring. There is an excellent introduction on tape, written by Michael Kennedy for the Opera Bites series.

Sponsored by Eastern Group.

Scene from Benjamin Britten's 'Paul Bunyan' Alastair Muir

Theatre/**Alastair Macaulay**

Three old women locked in their fantasies

The Royal Court has begun the third and final week of its International Writers' Festival. This is the German week; and, curiously, the pattern of its first evening was much the same as that of the first evening of the French week two weeks ago: i.e. a wonderfully performed once-only reading of an enthralling, surprising, and marvellous play at 7pm followed at 8.45pm by a good staging of a gloomy and altogether less fine play. The 7pm readings, mark you, are of a different play each night.

This week's first-night reading was *Holy Mothers*, by Werner Schwab (who died in 1994), and has been translated by Meredith Oakes. Three old women – Grete, Erna, Mariedl – talk, in the first scene, about their private lives and about God; in the second scene, they take turns to describe a shared fantasy of a party at which they themselves – though each describing themselves in the third person – are all present: a party which gets increasingly, hilariously, touchingly, out of hand.

Grete, once divorced and once widowed, has been quite a goer in her time, and her fantasies are of flirtation and sexual fulfilment: but her beloved dachshund, Lydia, plays a peculiarly intrusive role in both life and fantasy. A larger role, in fact, than her daughter Lydia: of whom the kindest thing she can say is "I 'ope she's 'appy in Australia, ovaries or no ovaries." Erna also has a ghastly child, the drunken Hermann (whom Grete, however, finds a bit of all right), but she is more pious and modest in her romantic fantasies: which all centre on the God-fearing, teetotal local sausage-maker.

Mariedl, however, has neither men nor children in her life. Her life and fantasy all hang on – get this – her unparalleled ability to clear blocked lavatories with her bare arms. ("Has there ever been a blockage that could resist her?") Grete can take some of this. ("I always say 'If the Lord God created the world, He also created human excrement.'") But it offends Erna. ("It's bad enough people have to go to the toilet. And have wicked thoughts.")

However, they manage, most of the time, to co-exist and to stimulate each other. Somehow the prim Erna ("Sex is a tragedy for mankind") puts up with Grete's fantasy ("He has to keep adjusting his lederhosen"), and vice versa; but the jaw-dropper is Mariedl, who carries on in immense detail of how she wins acclaim at this party by clearing one lavatory (it contains a tin of goulash: "the first time it's happened to Mariedl that something blocking a toilet has turned out to be edible"), then a second (it contains a bottle of beer), then a third (in which, after plunging in her arm "right up to the hairs on her armpit", she finds a bottle of perfume). It is a pity that the play suddenly changes gear in its last 10 minutes.

Eleanor Bron made much (almost too much) of the lascivious Grete, Freda Dowie was affectingly quiet as the pious Erna, but Liz Smith stole the play and my heart as Mariedl. She is the kind of actress who can make you fall about just by saying "Oh really?", and who – like Irene Handl or Patricia Hayes – can add a dash of lyrical gentility to individual words to make them hang like cartoons in the air. She will solemnly savour – chew – an ordinary paragraph to make it at the same time poignant and funny: "Almost all films are beautiful: they have seas, and mountains, and people having babies, and having quite difficult difficulties"). Fabulous.

Stranger's House, the fully performed play that followed, came as a dour anti-climax. A grim tale of Macedonians in exile and of the gradual discovery of past treachery, it is by Dea Loher, translated by David Tushingham, and directed by Mary Peate. Many of its scenes are extremely short, and all its six characters are viewed coolly and without affection. Beneath all the alienation and distancing, a melodramatic sense of revelation keeps welling up; you keep expecting someone to cry, as in *Hay Fever*, "He – is – your – *father*!" Despite good performances and production, despite some good lines, despite intelligence all round, the play means to leave us cold and succeeds.

The Royal Court New European Writers' Season continues at its Theatre Upstairs on December 6. Sponsored by the John Studzinski Foundation and the British Council.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITIONS
Stedelijk Museum
Tel: 31-20-5732911
www.stedelijk.nl
Gabriel Orozco: Recordings and Drawings. Display of recent video works by the Mexican artist, filmed in New York and Amsterdam; to Dec 14

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Dialogues des Carmélites: by Poulenc. New production conducted by Yves Abel in a staging by Robert Carsen. Cast includes Joan Rodgers and Sheri Greenawald; Dec 10, 13

■ BERLIN

CONCERTS
Deutsche Oper
Tel: 49-30-34384-01
Carmina Burana: by Orff. Conducted by Rafael Frühbeck da Burgos. With the Clemencic Consort conducted by René Clemencic; Dec 14

Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Claudo Abbadn in works by Wagner, Schumann and Beethoven; Dec 12, 13, 14

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Deutsche Oper Ballat: Rosalinde, choreographed by Ronald Hynd to music by J. Strauss; Dec 11

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Die Zauberflöte: by Mozart. Staged by Günter Krämer, with sets and costumes by Andreas Reinhardt; Dec 9, 12
● Hänsel und Gretel: by Humperdinck. Premiere conducted by Olaf Henzold in a staging by Andreas Homoki; Dec 13

■ BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
Turandot: by Puccini. Revival conducted by Daniele Gatti in a staging by Hugo da Ana; Dec 9, 11

■ CHICAGO

OPERA
Lyric Opera of Chicagn
Tel: 1-312-332 2244
www.lyricopera.org
Amistad: world premiere of *Anthony Davis's new work about* the 19th century anti-slavery campaign. Dennis Russell Davies conducts a production by George C. Woolfe; Dec 11

■ EDINBURGH

EXHIBITIONS
Scottish National Portrait Gallery
Tel: 44-131-624 6200
Portraits nf Excellence: e series of photographs of distinguished academics at the University nf Edinburgh, commissioned according to an 18th century University tradition; to Feb 1

■ LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
Evelyn Glennie: recital by the percussion artist, accompanied by pianist Philip Smith. Programma to include the world premiere of a new work by Dave Heath; Dec 9

EXHIBITIONS
Barbican Centre
Tel: 44-171-638 8891
● Don McCullin – Sleeping With Ghosts: major retrospectiva of work by the photo-journalist which spans his career from 1959 to the present. Includes prints drawn from the major stories he covered and more recent still lifes and landscapes; *to Dec 14*
● James Ensor 1860-1949: more than 140 works by the Belgian expressionist. Includes early studies of Ostend, portraits of the *artist's family and friends*, and tha carnival paintings for which he is best known; to Dec 14

OPERA
Shaftesbury Theatre
Tel: 44-171-379 5399
Tha Royal Opera: Paul Bunyan, by Britten. New production staged by Francesca Zambello and conducted by Richard Hickox; Dec 10, 11, 13

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salnnen in works by Ravel, Britten and Debussy. With soprano Sylvia McNair and the Los Angeles Master Chorale; Dec 11, 13, 14

■ MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
Tosca: by Puccini. Concert performance given by the Hallé Orchestra and the European Orchestra in their first collaboration. Kent Nagano conducts; Dec 10, 11, 14

■ MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
Macbeth: by Verdi. Conducted by Riccardo Muti in a staging by Graham Vick, with designs by *Maria Bjornson. Casts vary;* look out for Maria Guleghina and Roberto Alagna; Dec 10, 13

■ NEW YORK

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
George Balanchine'a The *Nutcracker*; Dec 9, 10, 11, 12, 13, 14

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
The Rake'a Progress: by Stravinsky. New production by Jonathan Miller, conducted by James Levine. Cast includes Dawn Upshaw and Samuel Ramey; Dec 11

■ PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Wolfgang *Sawallisch in* works by Beethoven. With piano soloist Radu Lupu, soprano Luba Orgonasova, mezzo-soprano Marianne Roerholm, tenor Herbert Lippert, bass René Pape. Choir led by Arthur Oldham; Dec 10, 11, 13

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
Der Rosenkavalier: by Strauss. New production conducted by *Edo de Waart in a staging* by Herbert Wernicke. Cast includes Renée Fleming, Susan Graham and Barbara Bonney; Dec 11, 14

Opéra National da Paris, Palais Garnier
Tel: 33-1-43439696
The Merry Widow: by Franz Lehár. Armin Jordan conducts a new production directed by Jorge Lavelli, with sets by Antonio Lagarto; Dec 9, 11, 14

Théâtre des Champs Elysées
Tel: 33-1-49525050
● Fidelio: by Beethoven. Production staged by Patrice Caurier and Moshe Leiser, with the Orchestre des Champs-Elysées and the Ghoir of the Welsh National Opera. Conducted by Louis Langrée; Dec 9, 12
● Leonore: by Beethoven. Production staged by Patrice Caurier and Moshe Leiser, and conducted by Louis Langrée. With the Orchestre des Champs-Elysées and the Choir of the Welsh National Opera; Dec 10, 13

■ TOKYO

EXHIBITIONS
Museum of Contemporary Art
Tel: 81-3-5245 4111
Loans from the Centre Georges Pompidou: selection of 127 works from the Musée National d'Art Moderne in Paris, on loan *while it is refurbished.* Artists represented include Matisse and Picasso; to Dec 14

■ VIENNA

EXHIBITIONS
Kunsthistorisches Museum
Tel: 43-1-525240
Pieter Brueghel and Jan Brueghel: comprehensive survey of the art of the two sons nf Pieter Brueghel the Elder. Includes around 130 paintings and 20 works on paper by Jan Brueghel the Elder (1568-1625) and his less celebrated brother Pieter Brueghel the Younger (1564-1637/8). The exhibition also includes a dozen important works by their father, enabling visitors to trace his influence upon the technique of his sons; to Apr 14

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Nonstop live coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

● **CNBC**
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

COMMENT & ANALYSIS

Martin Wolf

Same old IMF medicine

The Fund's prescription for South Korea is mistaken. It risks sending the corporate sector into a downward spiral of debt deflation and bankruptcy

Like deer, investors graze happily for a while, ignoring the peril of predators asleep nearby. Then, when startled, they stampede. These are the skittish beasts that the International Monetary Fund is trying to cajole back to their wonted east Asian feeding ground. The question is whether it is doing this in the best possible way. The answer is no.

The IMF's mistakes have little to do with the scale of the response. The Fund and the governments supporting it have mustered a great deal of money to tackle the crisis that began last June: for Thailand, $17.2bn (£10.3bn); for Indonesia, front-line financing of $23bn; and, for South Korea, the $57bn announced last week. The IMF alone has made $3.9bn available to Thailand, $10.1bn to Indonesia and $21bn to Korea.

But doing something on a spectacular scale does not make the details right. There are three precise objections to what the IMF is doing.

The first is that, by imposing a damagingly tough squeeze on economic activity in affected countries, the IMF risks undermining, not restoring, investor confidence. The second is that by insisting on faster liberalisation of capital inflows, the IMF may exacerbate financial vulnerability. The third is that these vast bailouts may encourage further folly, mainly by lenders.

Careful examination of the Asian crisis reveals why these criticisms have force. This is a calamity that has befallen the private sector. As Joseph Stiglitz, the World Bank's chief economist, argued in Kuala Lumpur this month, east Asian countries suffer neither from fiscal profligacy nor high inflation. Savings are generally well over 30 per cent of gross domestic product. Both the skills and work ethic of their peoples are impressive. These are outward-looking economies whose private sectors have demonstrated global competitiveness.

Thus the comparison between South Korea and the former East Germany made by David Hale of the Zurich group seems absurd: in 1995 Korea's exports to competitive world markets were a third of its gross domestic product. Between 1990 and 1995, export volume grew at an average rate of 7.4 per cent. East Germany had no Samsungs.

If these economies have neither been grossly mismanaged nor failed to generate internationally competitive production, why have they been subject to such vicious market attack? The chief answer is that they possess significant financial weaknesses: credit evaluation is virtually non-existent, corporate accounts are defective, transactions are influenced by personal relations, and banks and private companies have inadequate equity.

The salience of these weaknesses has been increased by policy errors, notably adherence to fixed exchange rates, and turbulence abroad, particularly the strengthening of the dollar against the yen after April 1995 and the earlier devaluation of the Chinese yuan. Partial integration into a world financial system unable to evaluate risk either intelligently or consistently has exacerbated ill effects. Capital first flowed in on a flood tide, then poured out, leaving devastation in its wake.

The failure of outsiders to foresee problems ahead has been striking. Two leading credit rating services, Moody's and Standard & Poor's, failed to downgrade long-term debt ratings of Indonesia, Malaysia or Thailand in the year and a half to June 1997. Instead, downgradings followed the crisis – and exacerbated it.

The IMF's task is to restore confidence and encourage needed reforms. But it is also to avoid imposing an unnecessarily severe squeeze. This last is not just the Fund's *raison d'être*, but economically essential. If the illness is debt deflation, a significant economic slowdown must make the patient's condition worse. High real interest rates in highly indebted economies are dangerous. For the IMF to treat debt deflation as if it were a traditional ill such as high inflation and fiscal profligacy is little more scientific than for a doctor to bleed his patients.

Again, when confronting the challenges of financial liberalisation and reform, a distinction needs to be made between measures to strengthen the robustness of the financial sector, on the one hand, and liberalisation of financial transactions, domestic and foreign, on the other. Partial liberalisation of transactions within unreformed and undercapitalised financial systems has been at the root of the crisis. Any such combination is a recipe for disaster.

How well, then, do IMF programmes avoid these dangers? Not particularly well. Just consider the Korean programme:

- short-term interest rates are being raised to over 21 per cent, a real rate of over 15 per cent;
- in spite of a devaluation against the dollar of more than 30 per cent over the past 12 months, monetary policy is seeking to maintain a low inflation rate of 5 per cent or less;
- the inevitable cyclical loosening of fiscal policy is to be offset by a structural fiscal tightening of 1¼ per cent of GDP.

The conclusion: however sick Korean companies and banks may be now, they will soon be sicker.

Turn then to the structural reforms in Korea. Foreign investment in domestic financial institutions is to be liberalised, as is foreign equity investment. These are helpful changes. But the decision to open domestic money and bond markets to foreign investors is highly questionable in current circumstances. As for proposed elimination of restrictions on foreign borrowings by domestic corporations, this looks dangerous. The last thing one gives quite-possibly bankrupt companies is freedom to borrow themselves out of trouble.

These weaknesses are significant enough. Unhappily, there is more. The IMF may have halted the contagion and could, if its programme works, help restore the confidence needed for new lending and investment. But it has also helped bail out foolish investors.

A study from the Washington-based Institute for International Finance, released last week, shows just how over-optimistic lenders to emerging markets became between the second quarter of 1995 and the third quarter of this year.* The risk is that they may return to their old ways too soon.

To be fair to the IMF, there are no easy ways out of a financial crisis, once started. There is always a trade-off between dealing with the panic, initiating fundamental reforms and minimising moral hazard.

For this reason, it is even more important to prevent crises in the first place. For developing countries, the lessons of this one include avoiding exchange rate pegs, strengthening financial systems and creating effective ways to restructure company finances. East Asian governments, ever pragmatic, are likely to learn these lessons swiftly.

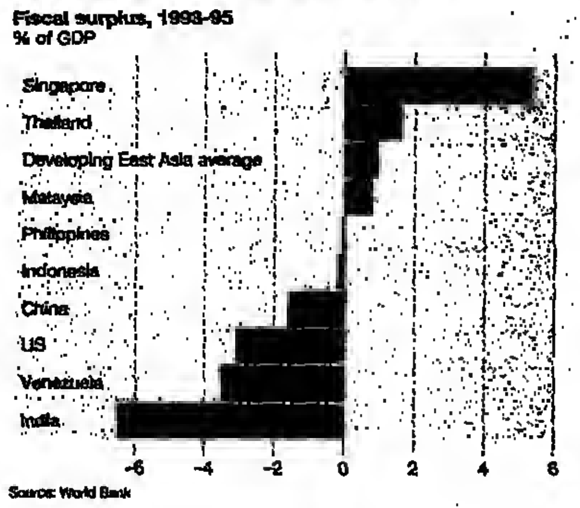
Yet lessons do not stop with countries caught out this time. The global financial system seems vulnerable to manic swings of mood. The powers-that-be need to ask why crises arise so often and what they can do to prevent them. The big task is not just to halt the present panic. It is to minimise the chances of recurrence. But that is a subject for another column.

**William Cline and Kevin Barnes, Spreads and Risks in Emerging Market Lending, Washington, Institute for International Finance, December 1997.*

Martin.Wolf@FT.com

East Asians are fiscally prudent

Fiscal surplus, 1993-95
% of GDP



Source: World Bank

Europe needs you – to think positively

Europeans should not forget their achievements of the past 50 years, argues Dominique Moïsi

The European Union has set itself three challenges in the years to come: establishing the euro as a single currency; reforming the EU's institutions; and enlarging the union eastwards. These three legitimate goals will be even more difficult to achieve if a fourth objective is not given a much higher priority: rallying public opinion to "the cause of Europe".

The public is divided. Those who oppose Europe do so passionately. Those who support it do so at best moderately, or at worst with a kind of passive resignation. On economic and monetary union, for instance, polls show that a growing majority of Europeans believe that the euro will come about more or less inevitably. But the number of those who oppose it is increasing proportionately.

The cause of Europe does not speak to the emotions of its citizens. Some prefer it that way. They think that emotions and politics should not be mixed, especially on a continent where in the 1930s in Nazi Germany emotions were manipulated for the most barbaric of causes.

They could also argue that, in today's Europe, many issues are technocratic in nature: the Maastricht criteria for Emu; the calendar for the euro's introduction; the challenge of respecting national sovereignty while pressing for ever-stronger European institutions; the cost of enlargement. None of these seem to provide an emotional base. The issues are too dry or too technical.

Yet it is not only wrong but dangerous to forget about the active support of public opinion in the construction of Europe. To do so is to widen the gap between the ruling elites – those who have access to the facts and can understand the issues – and ordinary voters. That is undemocratic and potentially destabilising.

Just as man does not live by bread alone, so Europe cannot rest on the euro alone. If popular support is lacking, then projects such as the euro, or enlargement, may not survive the rough weather they will inevitably face. Europe must try to tap a reservoir of positive emotions. And it cannot do so if its message remains negative or technocratic.

In France in 1992, the debate about the Maastricht referendum was really a debate about Germany. Did the treaty offer the best guarantee against the potential threat of a reunited and powerful Germany, or would it lead instead to a fatal abandonment to German supremacy in Europe?

That same reflex of negative thinking prevails today. Europe, according to some of its advocates, constitutes the best guarantee against the future unilateralism from the US or future competitive challenges from Asia.

These concerns may be legitimate, but if you want to create a "People's Europe" – to use the phrase of Tony Blair, the UK prime minister – you need to convince Europeans that they have reasons to be proud of themselves and of what they have achieved during the past 50 years.

To the rest of the world, Europe stands for a humane model of social and economic growth; a unique model of national reconciliation; and a unique reservoir of pluralism and diversity. Whatever the differences between "New Labour" in Great Britain and "Old Labour" in France; whatever the truths or fallacies of the "Dutch model" or the clumsiness of the German one, Europeans have achieved a relatively harmonious economic system. It is a system that seems in retrospect much more stable than the Asian model, if less dynamic than the American.

The economic foundations of Asian countries may remain strong, but the political foundations are not. Asia is paying the price, in economic terms, of non-democratic and too-often corrupt practices, as well as that of the lack of any real Asian sense of solidarity.

If Europeans have managed to keep a sense of solidarity – whatever their petty quarrels – they owe it not only to their institutions but also to their unique process of reconciliation.

Europe has a message to give to the rest of the world on the eve of the 21st century, based on its tragic and contradictory past. It is a message of reconciliation, whose key note has been the Franco-German one begun 50 years ago, but which now extends to cover countries in Eastern Europe.

Beyond reconciliation, there is also foreign policy and democratic appeal. Europe has failed tragically in the Balkans, its divisions and lack of political will preventing it from playing a decisive role.

But Europe is succeeding in central Europe, its enlargement policy being crucial to the democratisation and economic progress of the region.

These positive messages, however, would remain abstract if unaccompanied by results. In political terms that means to affirm a European policy in Bosnia. How can Europe be serious about creating common security, and not translate it where it matters most, in the Balkans?

In economic terms, the message is backed by significant success in the fight against unemployment. Above all, Europeans should be convinced that a united Europe is not simply a means towards an end, but an inherent value; an end in itself.

The author is deputy director of the Paris-based Institut Français des Rélations Internationales

LETTERS TO THE EDITOR

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Private funds changed air travel

From Mr Raymond J. Waldmann.

Sir, Ian Massey, Airbus's financial controller, provides a unique version of Boeing history (Letters, November 27) in claiming that the 707 and 747 were developed with government funds. It is also incorrect. The record is indisputable: for both the 707 and the 747, Boeing invested private funds equal to its net worth to create aircraft that changed the course of air travel.

Boeing privately financed the Boeing "Dash 80", which was the prototype for both the 707 and the KC-135. As for the 747, yes, it did take part in – but lost – the competition to develop an aircraft that became the Lockheed C-5. It received the magnificent sum of $8m from the US government for the preparation of its technical proposal. But even an Airbus accountant must acknowledge that the cost of competing for the Air Force contract (much less converting a high-wing military freighter concept to a commercially viable passenger airplane) dwarfed that sum.

Beyond that, history will show that Boeing was working on a very large commercial aircraft design well before the C-5 competition. And, of course, as anyone familiar with our history will know, not only did Boeing privately fund the cost of developing and bringing the 747 to market, but the risk was such that we were considered to have "bet the company" on the outcome. Given the Airbus experience, it is understandable that there is some confusion in differentiating state support from private funding, which, of course, must be returned to the lenders according to a strict timetable and at market interest rates.

As to Mr Massey's complaint regarding Nasa research funds: first, the vast majority of Nasa-funded research moves quickly into the public domain and is available to (and often used) by Airbus; second, research and development funding does not have the trade-distorting effect that government launch aid does; third, the 1992 Bilateral Agreement between the US government and the European Union is the proper forum in which to have these issues addressed.

Raymond J. Waldmann,
vice-president,
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Yet another airing for an old idea

From N.P.E. Wheeler.

Sir, In "NCR tries 'eye-print' technology in cash machines" (December 1) you report on a proposed trial of retinal pattern recognition (RPR) for automated teller machines' identification purposes.

Biometric identifications, of which RPR is a very old example, use some personal physical characteristic of the would-be user of a facility in lieu of a PIN number. Many other methods have been tried, such as fingerprints which you also mention, voice recognition, signatures and hand shape. None has stood the acid test of combining an acceptable "false admission rate" with an acceptable "valid entrant lockout rate".

RPR was used more than 10 years ago for controlling access to sensitive Israeli government installations. In such cases the necessary strict user discipline, such as standing still and not objecting to applying one's face to a publicly used eyepiece, can be enforced.

It has been shown over and over again that ordinary members of the public will not stand for this. All measures to make biometric systems "user friendly" result in degrading effectiveness as regards false admission rate.

I shall be astonished if this old chestnut proves to be a winner this time.

N. P. E. Wheeler,
electronic consultant,
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Banned by busybodies

From Mr Rainer Stephan.

Sir, Who, except for some anti-tobacco activists or some simple-minded health politicians, would think that a tobacco ad ban would reduce adult smoking or prevent kids taking up the habit? There is no advertising for marijuana smoking or heroin taking, yet there is heavy teenage drug consumption all over the world.

It is not the business of the Commission or of European health ministers to decide on a European anti-smoking policy. EU action is allowed only for reasons of completion of the internal market. Certainly a tobacco ad ban does little if anything to improve the internal market, and even less with the permanent exemption granted in last-minute horse-trading to Greece. The EU health ministers' decision turns out to be the work of hypocrites and busybodies.

Rainer Stephan,
vice-chairman,
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Germany

Ratings and the nightmare of every economic liberal

From Mr Michael Ingham.

Sir, As a (very) small investor with no professional experience of international capital markets, I was nevertheless fascinated by D.K. Patel's letter (December 4) suggesting that the Asian financial upheaval poses questions about the rating agencies.

Perhaps most of those questions need only be rhetorical, as the agencies' fees are, I believe, paid by borrowers or offerers of equity rather than by potential lenders or shareholders.

However, there seems to be another intriguing angle here. I vaguely recall reading reports in the Financial Times of new entrants and presumably therefore greater competition in the ratings "market". Is this an example of an economic liberal's nightmare: increased competition causing quality to decline and market transparency to deteriorate? Or are there already consultants advising investors on the choice of ratings agencies, like those helping pension fund trustees select managers?

Michael Ingham,
27 Wordsworth Street,
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LSE running out of time to set prices to rights

From Mr Christopher Bomford.

Sir, The London Stock Exchange has less than a month to find a way to stabilise share prices before the year-end. The well-publicised problems associated with Sets' pricing of shares, particularly at the beginning and end of the day, are nothing to the potential distortions which will undoubtedly occur on December 31 when a thinly attended market will be trading for the morning only.

Year-end valuations could be substantially mispriced with potentially serious consequences for those companies and funds which close their books at this time.

I sincerely hope a solution will be found to avert the problem on this and every trading day.

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COMMENT & ANALYSIS

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…ttern will be increas- …mmon elsewhere in … but at a substantial … is noticeable that the …iss banks are allowing …imes longer to integrate …domestic branch networks … to bring together their … national investment bank- …arms – even though the job …es in each case are roughly …mparable. This illustrates the …cklish nature of this type of …restructuring. Politicians, trade unions and clients all need to be assured that their interests will not be too badly damaged.

Expensive process

National consolidation is difficult enough. Beyond lies a still more demanding task, the creation of continent-wide financial services institutions – given added impetus by the introduction of a European currency from 1999. Whether carried out by acquisition or organic expansion, it is a difficult and expensive process. The latest arrival in any banking market always ends up as a magnet for poor credit risks. Those banks which expand across borders are likely to suffer from years of depressed profitability; those which stay safely at home risk condemning themselves to a strategic blind alley.

Big hurdle

In the parallel race, for membership of the global bulge bracket of investment banks, most European contestants have already given up – a fact underlined in recent weeks by the withdrawal of the two British entrants. With yesterday's announcement, UBS and SBC have made it clear that they are still in the running. Their merged successor will be one of at most four European banks that can still make this claim. But, as the merger announcement makes clear, a big hurdle lies ahead.

"A priority in investment banking will be to continue to expand further in the US market," it says. Only Credit Suisse has a significant presence at the heart of US investment banking, the most lucrative market. Without such a presence, other European contenders will languish. Yet acquisition targets are few, and – as Credit Suisse knows to its cost – integrating a newly purchased US investment bank is no easy task.

The future shape of the European banking industry is already clear. At one extreme will be two – at most three – global investment banks, each with a domestic banking business stuck awkwardly on the side.

At the other extreme will be profitable, focused retail financial services businesses, mostly operating within national or local boundaries, but occasionally appealing to wider communities of similar income and habits. In the middle will be a clutch of large-to-middling commercial banks. Some of these will make a successful transition to continental or international scale; most will languish as low-profit quasi-utilities.

As the Swiss merger shows, European bankers are struggling to come to terms with this future. It is hard to envy them the task.

Iran comes in from the cold

The Islamic republic of Iran is having an epic month. Last week its national football team qualified for the World Cup next year in France and – deliciously – has been drawn against the US, "the Great Satan". But even before it does battle with the Americans on the football field, Tehran can claim to have overcome Washington's efforts to isolate Iran internationally.

Today, 54 Moslem countries, more than 30 of them represented by their heads of state, are in Tehran for an Islamic summit which will be the biggest international gathering in Iran since the 1979 revolution. By contrast, last month's US-backed Middle East economic conference in Qatar was boycotted by Washington's Arab friends or attended by lowly officials.

The clerical regime in Tehran, until now feared for its attempts to export its brand of militant Islam throughout the region, is coming in from the cold.

The brightest jewels in the summit crown for Iran are the presence of Crown Prince Abdullah, heir to the Saudi throne, and of Egypt, which although it does not have diplomatic relations with Tehran is sending its foreign minister. Both countries, important American allies in the Middle East, have accused Iran of fomenting subversion in their countries, as have Bahrain, Kuwait, and the United Arab Emirates, all present in Tehran.

Moslem anger

But the most remarkable summit guest is Taha Yassin Ramadan, vice-president of Iraq, with which Iran was at war for most of the 1980s. His presence is a diplomatic coup for Baghdad, spurned by the Arab League since Saddam Hussein's 1990 invasion of Kuwait.

The breadth of this high-level turn-out reflects widespread Moslem anger at Israel's failure to honour its peace commitments to the Palestinians – and US failure to do anything about it. But it also reflects Iran's movement back towards the mainstream of Moslem nations.

The US sees Iran as a sponsor of international terrorism, a saboteur of the Middle East peace process, and a threat to the region because it is trying to acquire weapons of mass destruction. Most Arab countries were happy to echo this until recently.

International treaties

But many now realise that Islamist groups in Egypt, Algeria and Saudi Arabia are led by veterans of the Afghanistan war against the former Soviet Union. They remain nervous of Iran acquiring ballistic missile technology but point out that Tehran is signed up to international treaties on nuclear and chemical weapons proliferation while Israel – possessor of the region's sole nuclear arsenal – is not. As for the peace process, Iran's criticisms are beginning to sound moderate in comparison to those now heard in Egypt and Jordan, which have signed treaties with Israel.

Tehran is taking its moderation to extreme lengths. Its diplomats preparing summit resolutions have avoided restoring the boycott of international companies doing business with Israel in favour of a call for a freeze on Arab diplomatic and commercial ties with the Jewish state. They also prevented Sudan from pushing through a condemnation of all sanctions on "rogue states", arguing for a case-by-case approach.

Such a differentiated approach is what the European Union would like from Washington, whose "dual containment" policy has weakened the case for UN-endorsed sanctions against Iraq by confusing them with US sanctions against Iran, and against any company that invests in Iranian oil and gas.

The US should decouple its policies on Iran and Iraq. It should then with the EU and Russia work out a policy which holds Iran to its new-found moderation, based on an agreed system of rewards and penalties for its international behaviour. Iran could not be isolated before this summit, much less now.

The FT Interview · Lionel Jospin

France's new champion

The prime minister tells Robert Graham and Andrew Jack that his government is in it for the long haul, not the quick fix

Lionel Jospin, France's prime minister, pops over to introduce himself as he is escorting a group of people round his offices at the Hotel Matignon.

"You don't mind waiting: these are mayors from my region who have been here to lunch," he says, ushering them into a formal salon for a photograph.

The mayors are an ill-assorted bunch of ordinary folk in jovial mood, lapping up their host's company. The incident reveals how assiduously Mr Jospin has cultivated the image of the "people's prime minister" since his Socialist-led government took office in June.

At that time, he appeared little prepared for the job. He had won the election, it seemed, because of the unpopularity of his Conservative predecessor, not for his own party's programme. His comments on European economic and monetary union raised fears about whether France was prepared for the sacrifices necessary to observe the Maastricht criteria and even about future Franco-German relations. His commitment to a 35-hour week rattled businessmen. Few people were confident that France could peacefully manage a long period of cohabitation between a Socialist prime minister and Gaullist president.

Yet now, after a remarkably deft six months, Mr Jospin is allaying such fears. The euro is on track. France's role in it is secure. The relationship with Germany is solid. And Mr Jospin's France has won new respect in Europe.

As the interview progresses, it is peppered with phrases like "new style of government" and "being closer to the people". He is clearly determined to avoid the elitist labels attached to his predecessors. Even his huge half-moon shaped desk, the sole innovation in the traditional premier's study, he chose because he can fit all his advisers round it.

His answers are measured with firm control of the discussion. Above all he refuses to discuss the delicate relationship between himself as a Socialist prime minister and the Conservative president Jacques Chirac. He shrugs off their occasional spats, preferring to say the press likes to imagine rows when they often do not exist.

As he prepares for this week's EU summit in Luxembourg, Mr Jospin plays down the doubts that surrounded his party's attitude towards Emu. "The four conditions we laid down were agreed jointly within the party. They were never conceived as a pretext for not joining Emu, but rather to make sure that monetary union works efficiently and democratically."

One of these conditions was that every effort be made to include Italy and Spain in the first phase of the single currency. "When you are taking the historic step of integrating Europe, you don't do it with a small group of five or six countries," he argues. Of their current candidatures, he observes: "Spain is almost there and Italy has made a great effort. If they respect the criteria there is no reason to exclude them."

Another condition for endorsing Emu was avoiding an overvalued euro. He is satisfied this will not happen, but sounds a little less happy about how his EU partners have met a third condition: establishing a growth and jobs pact.

The final condition – the establishment of a euro-zone council – will be a key topic at Luxembourg this week. France sees no reason to include in the proposed council countries like the UK that are not committed to joining Emu at the outset. "The rules [of the council] have yet to be defined. But the UK, which invented clubs, should not complain at being excluded."

On the relationship between the council and the new European Central Bank (ECB), Mr Jospin says: "We do not want to limit the independence of the new European Central Bank. But we think there is a need to co-ordinate economic policies. Governments need to manage budgetary and fiscal policies and investment in infrastructure."

He vigorously defends France's controversial decision to nominate Jean-Claude Trichet, the Bank of France governor, to head the ECB. "The nomination of the president of the ECB is by the heads of state and government: this detail seems to have been forgotten by some. President [Chirac] wanted to draw attention to this aspect which was laid down in the 1991 [Maastricht] treaty. I do not know who will be chosen but I do know how he or she will be elected."

Foreign policy is conducted in consultation with Mr Chirac whose formal responsibility this remains. But Mr Jospin has firm views on the broader European picture and dislikes the idea of a formal Franco-German axis. "It is not useful to talk about a Franco-German axis given the existence of other states, including small ones, with strong identities. However, the alliance exists and reflects the post-war reconstruction of Europe. And it has played a role in resolving crises. But this alliance should not be at the expense of other countries like Italy and Spain – nor indeed the UK."

Referring directly to Britain's position in Europe: "The UK has not played the role in Europe it could, given its tradition of diplomacy, its *savoir faire* and the way it is present in EU institutions. This is not Europe's fault."

In spite of these harsh comments, he is more positive about Britain under Tony Blair, the UK prime minister, whom he calls "un *newcomer*" in Europe. "Things are undoubtedly changing. The government is more open, more European: they clearly want to play a bigger role."

He has struck a good personal relationship with Mr Blair that dates to a meeting in Barcelona in 1995. "We have things in common: we are both Socialists who won against Conservatives ... He speaks good French and I can speak English ... There are differences of age [Mr Jospin is 60; Mr Blair, 44], identity and in the political situations we inherited".

Elaborating further: "We are both attached to the strength of national identities and believe our countries have a role to play in the world."

Blairism imported into France has its limits. "Certainly there are marked differences over the role of the state. But in Europe it is interesting to mix cultures and make compromises. I am not sure it would be a good thing if everyone adopted the same economic approach, especially for subjects that can be treated at the national level." He adds: "I know my country well and an enforced conversion to ultra-liberalism [strong commitment to free markets] would just not work in France."

Mr Jospin frequently emphasises that he is against a doctrinaire form of socialism. "Today socialism is less doctrine than a movement, more a source of inspiration than a reference. The era of sweeping ideology is behind us. But I hope there are ideas – I am a man of ideas not ideology."

His socialism rejects protectionism and statism; but he insists that government has a role in regulating society. "You have to introduce a form of harmony and intervene at times. Look at what the International Monetary Fund is doing in Korea or at Bretton Woods after the War ... I think the market should be tampered."

As regards privatisation he says: "I don't want to be an ideologue." But he adds: "I don't see why companies that operate poorly should be kept in the public sector in industries opened to competition, when there is no public service obligations." He has gone ahead with the first tranche of France Telecom, reduced the state presence in the defence electronics group SGS-Thomson, and launched the sell-off of the insurer Gan.

But he clearly does not endorse privatisation for privatisation's sake. On the other hand he leaves plenty of room to retain state control of monopolies. "My approach is simple: when something is doing well (in the state sector) there is no need for change."

Mr Jospin's version of socialism and his commitment to the euro has so far been digested by his Communist partners. "I am reasonably confident the partnership will continue: they no longer have the USSR as a point of reference. To succeed in government with good ministers is an important element in their new identity."

He fends off criticism that his tone at times is too schoolmasterly and moralistic. "What some call moralism, I call normal behaviour," he quips. Mr Jospin is a Protestant, but he he denies his upbringing has influenced his views. "France is a lay country and people are not defined by their religion."

Of the domestic issues, he appears to backtrack on the significance of introducing a 35-hour week to help create employment. The government is due on Wednesday to unveil outline legislation for this proposal which has set Mr Jospin on a collision course with the employers. "On its own the 35 hour week is not a magic formula to fight unemployment – a concerted European policy, higher growth, developing new technology and tackling youth unemployment are needed as well."

He argues the policy will not raise overheads by anything like what the employers fear: at most it would mean an extra 2.5 per cent per week. But at the same time he says the government will be flexible. "Companies should take advantage of the 35-hours proposals to reorganise their working practices. The measures, I stress, will not be introduced straightaway [2000 at the earliest], and it will be longer for the small companies."

Having placed great emphasis on jobs, Mr Jospin nevertheless hopes the government will be judged on a wider range of issues throughout his term, which could run for five years.

"I don't believe in the idea of the 'first 100 days'. I have not thrown all the wood into the fire at the outset just to watch it burn out. I want something more slow-burning, less flamboyant."

· OBSERVER ·

Masterly Marcel

■ It's only nine months since Marcel Ospel wrote to Swiss Bank Corporation staff giving them a day off and a $250 bonus to celebrate the bank's 125th birthday. The next *billet doux* from one of the youngest chief executives in European banking is unlikely to go down as well.

Gloomy UBS staff were quick to employ gallows humour to soften the blow of impending job cuts. Within hours, the bank's initials stood for "U've Been Sacked."

Things are looking somewhat brighter for the straight-talking, soft-spoken Ospel, who yesterday seemed to be hitting it off well with old acquaintance and chairman-designate Mathis Cabiallavetta. A mere three weeks ago, the 52-year-old UBS boss declared he'd studied a "whole range of expansion opportunities but rejected them all after careful consideration".

Ospel, 47, does better than most from a deal which appears as dramatic as it is necessary. A calm, analytical figure, he's had a driving role at SBC for some years. He helped turn it into one of the top players in international capital markets, was instrumental in its purchase of blue-chip London brokers S G Warburg, and negotiated the acquisition of Chicago futures and options operation O'Connor Partners.

With exquisite timing, UBS Christmas cards began arriving on clients' desks in London yesterday. Proceeds from the seasonal greeting go in part to a charity for victims of crime: given that many feel that UBS has been mugged, that seems uncannily appropriate.

Swiss roles

■ The bosses of UBS and SBC in the US were at SBC headquarters at 10.30 yesterday morning telling hard-to-impress Wall Street analysts and journalists why their mega-merger made sense. An hour later, they were at the Plaza hotel, being grilled by holocaust survivors and public finance officials about the Nazi gold affair, which hasn't done the Swiss banks' image much good during the past year.

Simon Canning, the Briton who heads SBC Warburg Dillon Read, and Dick Capone, who runs UBS in the Americas, kept their heads down at the merger press conference: Wall Street had to make do with a second-rate video link with London. At the Plaza, they sat side-by-side, determinedly referring to each other as "my future colleague", refusing to be riled by hostile questions, and insisting that the merger wouldn't affect their efforts to settle the affair.

The two sceptical audiences will continue to watch closely.

Shining example

■ The strongly Catholic Philippines takes Christmas very seriously, usually from about October. But the Christmas lights blazing over Manila aren't all stars, saints and Santa Claus. Above the central bank's offices overlooking Manila Bay, huge lighted graphs and charts shine out, showing economic indicators such as international reserve levels, inflation and interest rates.

Passing motorists can marvel at the bank's success in controlling inflation, building up reserves since the peso was floated in July and slowly bringing down interest rates from more than 30 per cent. In the spirit of Christmas cheer, there's one indicator missing – the exchange rate, which has lost 36 per cent of its value against the dollar recently. Who said the authorities were in denial over the Asian currency crisis?

Voted out

■ Paris is in for a bit of electoral house-clearing. Mayor Jean Tiberi wants 170,000 of the 1.16m voters in the French capital removed from the lists.

The polling cards of some people still on the list were returned as undelivered as long ago as 1994. Others are still registered in spite of taking the trouble to write and inform the authorities that they had moved out of the capital, while still others are simply dead.

It all seems like a sound policy, but it has taken a while for Tiberi, mayor since 1995, to swing into action. He won re-election to his National Assembly seat for Paris in May, since when his opponents have launched a legal action claiming that his constituency included a generous smattering of "phantom" electors.

Giving the matter his attention at this stage is unlikely to mollify his rivals.

Global outlook

■ One might have expected the worthy American periodical Foreign Affairs to be aware of the world beyond the US and Canada, even if its subscription form leaves no space for the applicant's country. One British would-be reader tried to overcome this difficulty by giving his address as "London, UK". Foreign Affairs promptly despatched a confirmation slip to Ukraine.

Financial Times

100 years ago

The Upper Nile Dispute
The St. James's Gazette gives prominence to the statement that it is informed, on unquestionable authority, that the Government does not expect any trouble with France as regards the upper regions of the Nile. The territory in dispute is considered to be in itself worthless; but any Power in possession of it could divert the course of the Nile and render Egypt waste. This France knows, and the Gazette's information is that the Government of the Republic "accepts the situation." Successive British Governments have felt themselves under the necessity of securing the absolute control of the entire course of the river.

50 years ago

Egypt's Sterling Balances
The Anglo-Egyptian sterling talks have opened in the rooms of the Royal Society in London. The Egyptian delegation has one additional delegate, Amin Fikri Bey, first Egyptian sub-governor of the National Bank. Before the meeting Dr. Rafai Bey issued a request to the Press to refrain from publishing any rumours.

FINANCIAL TIMES
Tuesday December 9 1997

US vice-president breathes life into emissions talks

Gore tells US delegates to ease stance in Kyoto

By Leyla Boulton, Environment Correspondent, in Kyoto

Al Gore, the US vice-president, yesterday breathed new life into the Kyoto negotiations on climate change by ordering last-minute concessions from the US delegation.

US, European and Japanese ministers were last night struggling to bridge divisions, as Mr Gore headed back to Washington after 14 hours of consultations in Kyoto. He said he was "cautiously optimistic" that agreement could be reached by the time the talks ended tomorrow. He promised to "work behind the scenes" with President Bill Clinton, "telephoning presidents and prime ministers".

After meeting US negotiators and telephoning Mr Clinton, Mr Gore said he had instructed the US delegation to "show increased negotiating flexibility".

With less than 48 hours to go, negotiators at the 160-nation talks must clear two main hurdles to legally binding curbs on greenhouse gas emissions linked with global warming.

Industrialised countries must first resolve considerable differences about the timetable and contents of an agreement to curb their emissions of greenhouse gases, including carbon dioxide from fossil fuels, by 2010. That was the main aim of the talks last night between the US, Japan and the European Union.

Developed nations must next persuade big developing countries such as China, India and Brazil to agree a form of words promising to discuss curbing their emissions' growth in future. Mr Gore said "meaningful participation" by such countries remained a condition for the US to approve a deal.

He declined to spell out the exact nature of the concessions the US was prepared to make.

But European officials said last night they already detected a greater US willingness to plug loop holes in their proposals for emissions trading and for so-called joint implementation. That allows a country to gain credit against its domestic targets by helping other countries cut their emissions. They also hoped, and Mr Gore did not rule out, that the US would raise its target for curbing emissions.

While winning the applause of US environmentalist groups, Mr Gore's hints of compromise provoked a fierce attack from some of the Congressmen and most of the US industry lobbyists also in Kyoto. "I think this only means greater trouble for the economy," said William O'Keefe, chairman of the Global Climate Coalition, a group representing much of US industry.

The critics also provided a reminder that the administration's difficulties will begin after a deal is agreed. The US Senate will veto any treaty that does not include matching commitments for developing countries.

Historic auction to end as high tea meets IT

By Gary Mead in London and Kunal Bose in Calcutta

London's weekly tea auction – held since 1834 – will cease early next year, extinguished by international competition and computer screens. "It's very sad, but it's death by technology," said one London-based tea broker yesterday.

The East India Company staged London's first tea auction in March 1679 and it became weekly 163 years ago. Only two brokers are involved in running the auction today – Wilson & Smithett and Thompson Lloyd & Ewart – and they have signalled the end to a piece of City history. From February the auction will be fortnightly, before finally closing in June.

Several factors are behind the auction's demise, including a trend towards bulk delivery; the development of a 24-hour global trading environment; and successful auction centres in tea-producing countries. All have resulted in declining volumes at the London auction, which handled 22.97m kg of tea in 1996, against 95.16m kg in 1980.

The final straw came in April, when the Kenya Tea Development Authority – which accounts for more than half Kenya's crop, Africa's biggest – then stopped using the London auction. This followed a drought that reduced Kenya's production by 25 per cent. When Kenya recently made the suspension permanent, the London brokers felt they had to wind down the auctions.

"Twenty years ago, 70,000 50-kg chests a week were being auctioned in London. Today, it's down to about 7,000 chests, and half of that's Indian tea, which will run out in January, when the Indian season is over. We'd be hard pushed to sustain an auction on sales of 4,000 chests, and it's no longer viable to have buyers coming to look at a small selection of teas," said Michael Bunston, broker with Wilson & Smithett.

Tea from Kenya – the UK's biggest tea importer – will now be sold at Kenya's successful Mombasa auctions. Other auction centres – Calcutta for Indian production, and Colombo for Sri Lankan – have challenged London's dominance. Pakistan, which in the next five years hopes to overtake the UK as the biggest importer of tea, plans to develop its own auction, either in Karachi or Lahore.

The London brokers intend to continue selling tea to private clients. "It's difficult to know how it will affect us, but with six months to go we hope to develop a *modus operandi* for the future," said Mr Bunston.

France in Emu plea

Continued from Page 1

countries could be 'ins' despite the continued reservations of some European central bankers. "Spain is almost certainly there and Italy has made a great effort. If they respect the criteria there is no reason to exclude them," he said.

The French proposal for a council made up of members of economic and monetary union is to be discussed at the summit. Mr Jospin showed little sympathy for countries such as the UK, which is complaining that such a council would create an exclusive club, while at the same time choosing to stay outside the single currency: "The rules [of the club] have yet to be defined. But the UK, which invented clubs, should not say it is unfair to be excluded."

The council would not interfere with the independence of the European Central Bank. But Mr Jospin insisted elected governments must have responsibility for co-ordinating economic policies. "Governments need to manage budgetary and fiscal policies, and investment in infrastructure." He made no apologies for France's decision to nominate Jean-Claude Trichet, governor of the Bank of France, as head of the ECB after European central banks had agreed on Wim Duisenberg, the Dutch candidate.

"The nomination of the president of the ECB is by heads of state and government: this detail seems to have been overlooked by some," he said.

S Korea admits short-term debt is over $100bn

By John Burton in Seoul

South Korea's debt crisis took a sudden turn for the worse yesterday as the finance ministry admitted that the country's short-term debt exceeded $100bn, nearly double the amount it claimed during last week's rescue negotiations with the International Monetary Fund.

The new figure, which includes borrowings by overseas subsidiaries of Korean companies and banks, came as local media reported that foreign-currency reserves were almost exhausted.

Seoul denied allegations that it had deceived the IMF in negotiating its $57bn rescue. During negotiations, it claimed that short-term debt obligations amounted to $65.6bn, which excluded $51.2bn in "non-resident borrowing" by Korean entities.

But the new estimate for Korea's short-term debt has added to doubts in financial markets about whether the funds provided in the IMF's record bail-out will be enough to cover the nation's obligations to foreign lenders.

The Korean currency, the won, fell to a record low of Won1,342.40 to the dollar, while fears of a corporate-credit crunch led to a 4.8 per cent drop in the Seoul bourse.

The Chosun Ilbo, a leading newspaper, yesterday quoted a leaked IMF report as saying that Korea's foreign-currency reserves had dwindled to only $5bn last week, from $30.5bn at the end of October, as Seoul struggled to meet loan payments by indebted investment banks. In a tacit confirmation of the report, the finance ministry said it would protest to the IMF about the leak, which, it said, damaged Korea's credibility and threatened the stability of its financial markets.

Korea has received $5.6bn in its first tranche from the IMF and expects another $3.6bn after December 18, when the IMF will complete its first review of Seoul's progress in implementing loan terms. It is estimated that Korea must pay $20bn by the year's end.

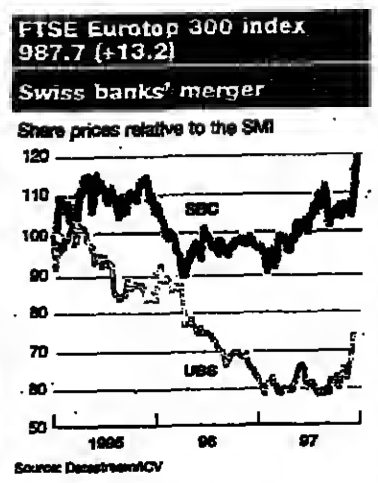
Stanley Fischer, the IMF first deputy managing director, said Korea had been only days from "financial catastrophe" when the fund intervened in last month, but analysts warned that the government may be trying to evade the spirit of its IMF programme.

Easy financing terms for the purchase by Daewoo of Ssangyong Motors, announced yesterday, could put further pressure on Korea's troubled banking system.

Daewoo acquisition, Page 17
Korea car sector on rationalisation road, Page 8

THE LEX COLUMN

UBStaged



How are the mighty fallen! It is hard to view the merger of Swiss Bank Corporation and Union Bank of Switzerland as anything but a reverse takeover by SBC, the smaller bank. It has provided not only the chief executive but three of the four divisional chiefs. True, UBS's initials will continue to emblazon the bank's logo, and it will provide the chairman and headquarters. But these are more the trappings of power than power itself.

That UBS has had to swallow its pride is testimony to how badly morale has been bruised by years of trench warfare with Martin Ebner, the maverick investor, and to its ham-fisted response to the Nazi gold saga. Overall, SBC's management has been slicker. But to paint this as merely a public relations coup is to ignore the fact that SBC's shares have substantially outperformed too.

The logic of the deal is most powerful in Swiss domestic banking. The costs saved by stripping out a fifth of the staff and much of the duplicated branch network should feed through to the bottom line.

Elsewhere, the logic is middling. Investment banking will witness even more blood on the floor, with most of UBS's business facing the axe. But much of the associated revenue is likely to vanish too, so the bottom-line impact may not be hugely positive. And while the combined operations, dubbed Warburg Dillon Read, should be a touch stronger in the US, they will still not be top-tier. Reaching that position will not be easy; a big US-based acquisition to fill the gap would probably involve yet more blood-letting in Europe.

Investment banking

Yesterday was bleak for the 6,000 investment bankers set to lose their jobs as a result of the SBC/UBS merger. But for investment bank shareholders, it may be a turning point. The recent scramble to create global investment banks has been a bonanza for employees – with pay bills soaring – but worrying for investors.

But now the industry has entered a consolidation phase. UBS is in effect quitting the business, though some of its choicest nuggets will join Warburg Dillon Read. Add that to recent decisions by Barclays and National Westminster to pull in their investment banking horns. All three were part of the industry's muddled middle, lacking size and coherence. Other members of that brigade – such as Deutsche Morgan Grenfell – will find the going increasingly tough if market conditions deteriorate.

By contrast, prospects are looking up for the top tier. Not only should an increasing army of unemployed investment bankers help keep a lid on pay but the companies seen as survivors will be able to get away with paying less. A shrinking number of competitors should also ease the emerging downward pressure on prices. This land of milk and honey has not yet arrived: indeed, a desperate last dash by members of the muddled middle to join the superleague is possible. But it is no longer ridiculous to imagine a time when investment banking earnings are considered high quality.

US West/Telewest

A takeover of Telewest, the UK's second largest cable company, would make a lot of sense for American telephone group US West.

Like several of its peers, US West has been happily acquiring cable television/telephony and wireless telecommunications assets around the world. But in contrast to, say, SBC and Ameritech, it has done little to knit them together. Now that these overseas assets are being spun off from the regulated Baby Bell as part of the new US West Media group, the management needs to evolve a more coherent international strategy. Going "deeper" into the UK market by taking control of Telewest, in which it already owns a 27 per cent stake, would be a good start. And experience of UK cable, with its advanced technology, could also help US West Media in the US, where the combination of cable TV and telephony is still in its infancy.

Telewest would not be cheap. While the rest of the equity would cost less than £800m, the US group would also have to take on £1.2bn of debt. But it would be well placed to force further consolidation of the UK cable industry. The real prize would be a merger with industry leader Cable & Wireless Communications, yielding significant synergies. Previous discussions have apparently foundered on price. But if US West were to offer C&W all of Telewest and its 50 per cent holding in the One-2-One mobile phone network, it would be in a much better position to extract value.

Daewoo/Ssangyong

With Daewoo buying Ssangyong's motor business, the expected consolidation of the Korean car market could be under way. Overcapacity and falling profits have been the unsurprising result of five car manufacturers going head-to-head in a country of only 45m people. As depressed export markets take up less of the slack, the move from five players to four should be welcomed. And if Kia – recently bailed out by the state – falls into the hands of Samsung or, less probably, Hyundai, a sustainable competitive structure might not be far away.

That will depend, however, on capacity being removed rather than on a superficial reduction in the number of players. Given that Daewoo sees Ssangyong's range as complementary, not overlapping, this is doubtful. Daewoo is determined to push as many of Ssangyong's jeeps and luxury sedans through its global sales network as it can to catch up with Hyundai.

Also unclear is how the business will be managed, with two colossal conglomerates each having sizeable interests at stake.

Ssangyong is unlikely to receive much for the 53.5 per cent of the equity it is selling, given that Daewoo is taking on some $1.6bn of debt. That said, the noose round Ssangyong's neck is loosened. With lower interest costs, the financially weak *chaebol* can focus on its relatively profitable oil refining and cement businesses. Worries over Daewoo's financial health, however, may continue to grow.

See additional Lex note on UK chemicals, Page 23

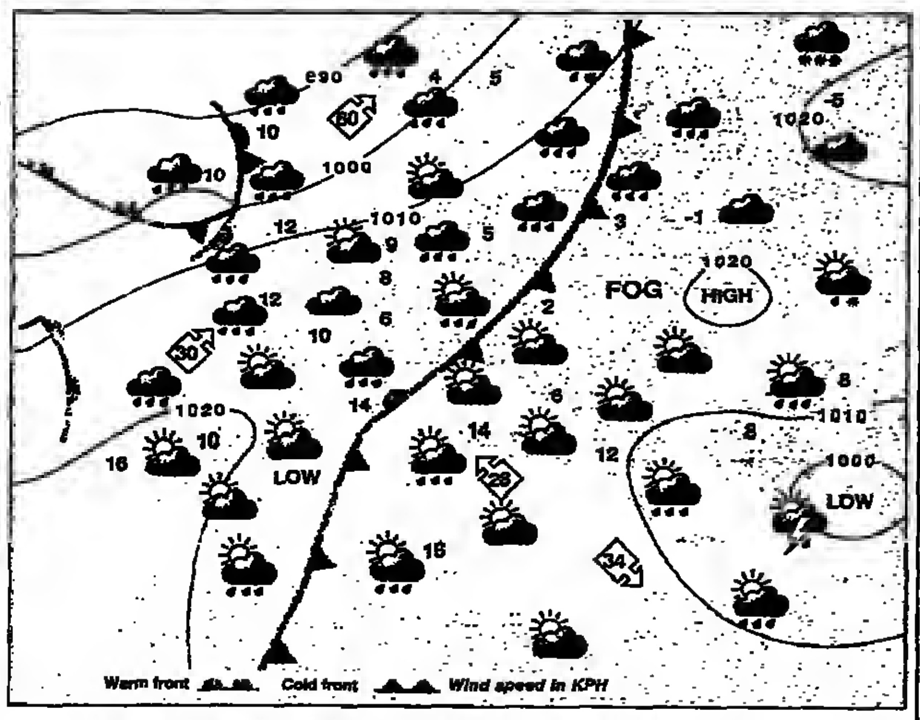
FT WEATHER GUIDE

Europe today

Scandinavia and the Baltic states will be windy but will become milder, with snow turning to rain in most areas, except for parts of Finland and the far north. From Poland to the south of France there will be a band of showers that will move slowly eastwards, but north-west Europe will become wet again later. Early fog patches will clear to leave sunny spells in the south-east and most of Italy and Greece will be fine. Turkey and the eastern Mediterranean will have heavy showers with scattered thunderstorms. The Iberian Peninsula will be mostly fine but rain will move into the north-west.

Five-day forecast

Most of the continent will be milder than recently but it will be unsettled. Rain will move across the north-west into Scandinavia and it will be windy. By the end of the week central Europe and the Mediterranean will have more showers. Towards the weekend the north will turn colder.



TODAY'S TEMPERATURES *Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre*

	Maximum		Beijing	Sun	-2	Cardiff	Shower	12	Frankfurt	Drzzl	8	Madrid	Cloudy	10	Rangoon	Sun	34
	Celsius		Belfast	Shower	10	Casablanca	Cloudy	21	Geneva	Drzzl	6	Majorca	Fair	17	Reykjavik	Snow	2
Abu Dhabi	Sun	28	Belgrade	Fair	3	Chicago	Sleet	2	Gibraltar	Shower	18	Malta	Fair	17	Rio	Thunder	28
Accra	Fair	30	Berlin	Drzzl	5	Cologne	Drzzl	8	Glasgow	Rain	10	Manchester	Shower	11	Rome	Fair	14
Algiers	Shower	19	Bermuda	Fair	22	Dakar	Fair	26	Hamburg	Rain	8	Manila	Cloudy	31	S. Frsco	Sun	12
Amsterdam	Cloudy	9	Bogota	Thunder	20	Dallas	Sun	22	Helsinki	Drzzl	4	Melbourne	Cloudy	23	Seoul	Cloudy	0
Athens	Fair	12	Bombay	Cloudy	31	Delhi	Fair	22	Hong Kong	Fair	18	Mexico City	Fair	26	Singapore	Thunder	32
Atlanta	Thunder	14	Brussels	Cloudy	9	Dubai	Sun	27	Honolulu	Sun	27	Miami	Fair	28	Stockholm	Cloudy	5
B. Aires	Fair	27	Budapest	Cloudy	-2	Dublin	Shower	11	Istanbul	Drzzl	8	Milan	Cloudy	6	Strasbourg	Cloudy	5
B.ham	Drzzl	11	C.hagen	Drzzl	8	Dubrovnik	Fair	12	Jakarta	Cloudy	32	Montreal	Cloudy	1	Sydney	Thunder	27
Bangkok	Sun	35	Cairo	Fair	20	Edinburgh	Shower	10	Jersey	Drzzl	14	Moscow	Cloudy	-6	Tangier	Shower	20
Barcelona	Fair	17	Caracas	Fair	27	Faro	Fair	18	Johannesburg	Fair	25	Munich	Rain	4	Tel Aviv	Thunder	18
									Karachi	Sun	28	Nairobi	Cloudy	25	Tokyo	Fair	15
									Kuwait	Cloudy	21	Naples	Fair	14	Toronto	Cloudy	1
									L. Angeles	Sun	17	Nassau	Sun	27	Vancouver	Cloudy	8
									Las Palmas	Fair	25	New York	Cloudy	8	Venice	Fair	8
									Lima	Fair	27	Nice	Fair	15	Vienna	Sleet	1
									Lisbon	Fair	18	Nicosia	Thunder	20	Warsaw	Rain	2
									London	Shower	12	Oslo	Rain	4	Washington	Rain	7
									Luxbourg	Drzzl	5	Paris	Cloudy	10	Wellington	Fair	18
									Lyon	Cloudy	8	Perth	Sun	33	Winnipeg	Sun	-8
									Madeira	Fair	22	Prague	Rain	3	Zurich	Cloudy	5

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday December 9 1997
Week 50

Fuji snaps up a larger US share

Almost 30 years after Fuji Photo Film ventured into the US, its market share there has risen to 20 per cent, according to some studies. This push may well be strengthened by a World Trade Organisation ruling last week, which cleared Fuji of charges that it had obstructed foreign access to the Japanese market. Page 21

Daily share volume data published

The Financial Times today begins publishing figures for the daily trading volumes of individual UK stocks. To make room for this feature, which will appear from Tuesday to Saturday, we will publish market capitalisation data in Monday's paper only, though they will still appear daily on the FT's web site, http://www.ft.com. Dividend pay dates will no longer appear on a Monday. London Share Service, Pages 32,33

Takeover talk brews over San Miguel

Rumours of an imminent hostile takeover of San Miguel, the Philippine food and beverage group, by First Pacific, the Hong Kong-based conglomerate, are causing a stir in an otherwise listless Manila stock market. Page 20

Ukraine set to privatise grain sector

Ukraine is on track to privatise grain storage and distribution by the end of the year, according to the chairman of the conglomerate that controls the system. Page 28

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			**PARIS (FFr)**		
Rises			**Rises**		
Fuchs Pet	219	+ 11	Cent-Blanzy	361.6	+ 33.6
K & M Mobel	15.65	+ 0.65	Idia	210	+ 38
Pfaff	64.9	+ 8.1	UAP	179.9	+ 12.1
Phtitac	78.95	+ 4.35	**Falls**		
Falls			Finatis	181	− 19
Bilfinger	54.8	− 6.1	Mille Amis	39	− 5
Vossloh	94.3	− 8.2	Trouvay	252	− 28
NEW YORK ($)			**TOKYO (Yen)**		
Rises			**Rises**		
Deposit Gnty	57⅜	+ 4⅜	Hiroshima	285	+ 8
GATX	66⅞	+ 3¼	Iwatsu	165	+ 4
Primark	38⅛	+ 2⅜	**Falls**		
Veritas	42⅜	+ 2⅛	Dowa Mng	328	− 25
Falls			Hitachi	940	− 20
Kubota	64½	− 1½	NGK Spark	812	− 31
Windmere	20¼	− 1¼	Okuma	503	− 29
LONDON (Pence)			**HONG KONG (HK$)**		
Rises			**Rises**		
Jarvis	349	+ 16½	Beijing Ent	24.75	+ 1.5
NatWest	898	+ 58	China Rs	19.9	+ 0.9
Select Appts	651	+ 50	SHK	64.25	+ 2.25
TI Grp	527	+ 27	TVB	22.9	+ 1.6
Falls			Wharf Hldgs	17.55	+ 0.95
Carpetright	480½	− 17	**Falls**		
Tesco	518	− 25½	China Mtr	74.75	− 1.25
TORONTO (C$)			**BANGKOK (Baht)**		
Rises			**Rises**		
Can Fracmstr	11	+ 1	Bangkok Ins	360	+ 46
Harris Stl A	11	+ 0.95	Prada Jwly	16	+ 3.5
Fst Marathon	21.75	+ 1.25	Siam Pulp	34.25	+ 5.75
TLC Laser	12.5	+ 1.05	Thai Toray	34.75	+ 4.5
Falls			**Falls**		
Inverpower	3.25	− 0.5	Regional Con	32.25	− 13.75
Memotec Com	1.2	− 0.5	Unique Gas	65	− 11

New York & Toronto prices at 12.30.

Market Statistics http://www.FT.com

Russian group in $800m oil deal

Stake gives Yukos control of Eastern

By John Thornhill in Moscow

Yukos, one of Russia's biggest oil companies, has strengthened its position in the country's increasingly competitive industry by winning control of Eastern Oil.

The giant Russian oil company spent $800m in a privatisation auction to acquire a 45 per cent stake in Eastern Oil and has also bought shares in the market to take its total shareholding to more than 50 per cent.

On a consolidated basis, Yukos will vie with Lukoil for the title of Russia's biggest oil company in terms of output, accounting for about 15 per cent of the country's total production. Analysts said Yukos had paid a fair price for Eastern Oil, in contrast with many previous privatisation sales, seen as "sweetheart deals" between the government and favoured banks.

"Eastern's market value is about $3bn so to buy 45 per cent for $800m looks like a bargain," said Mr Stephen O'Sullivan, equity analyst at MC Securities, an eastern European investment bank. "But Eastern is a holding company and when you consider the underlying market value of Eastern's subsidiaries it looks like a full price."

Yukos, which is part of the Rosprom financial-industrial group built around Menatep bank, is already one Russia's largest oil producers. The company forecast yesterday it would produce 35.6m tonnes of oil in 1997 compared with 35.3m the previous year.

Eastern Oil, which includes the Tomskneft production company and the Achinsk refinery, produced 11.3m tonnes of oil in 1996.

Some analysts criticised the industrial logic of the deal, arguing Yukos would have been better advised to spend $800m upgrading its existing production units.

"They are playing power games," said Julia Dawson, Russian equity analyst at ING Barings, the international securities house. "They have still got considerable problems with Yukos and taking on another company does not make sense in the short term. But on longer term view they have just bought cheap assets."

The Russian government has put several big oil companies on the auction block as it desperately seeks additional revenue to plug its budget deficit. Over the next few weeks, it also plans to sell a 0.96 per cent stake in Lukoil in a straight cash auction and a further 15 per cent as part of an investment tender.

The competitive pressures in the Russian oil industry are increasing as foreign multinationals move into the local market. Last month, Royal Dutch/Shell formed a strategic alliance with Gazprom, the giant gas monopoly, while BP linked up with Sidanco, a Siberian oil producer.

Daewoo to acquire 53.5% of Ssangyong Motors

By John Burton in Seoul

Daewoo, South Korea's fourth largest conglomerate, yesterday agreed to purchase the heavily-indebted car division of Ssangyong, in an important step toward the consolidation of the nation's crowded automotive sector.

Daewoo said it would acquire 53.5 per cent of Ssangyong Motors for an amount still to be negotiated, while it would assume Won2,000bn ($1.6bn) of the troubled carmaker's total debts of Won3,400bn.

Losses and heavy debt payments at Ssangyong Motors threatened the financial stability of its parent group, Korea's sixth-largest conglomerate.

Austerity measures to be imposed by the International Monetary Fund as part of its $57bn rescue package for Korea convinced Ssangyong to sell the car company.

The takeover of Korea's fourth-largest carmaker by second-ranked Daewoo could pose a strong challenge to Hyundai, the nation's leading car producer, and overshadow competition from Kia and Samsung, the country's other carmakers.

Ssangyong's main products are four-wheel-drive and commercial vehicles which would complement Daewoo's strengths in passenger cars. Daewoo would have a combined production capacity of 1.2m vehicles as a result of the takeover, compared with 1.8m for Hyundai.

Daewoo was given easy financing terms by Ssangyong's creditor banks led by Cho Hung Bank.

It will pay the principle on the carmaker's debt after 10 years, while interest payments in the meantime will be made at one percentage point above Cho Hung's prime lending rate of 8.5 per cent – much less than other corporate lending rates in Korea.

Ssangyong will pay the principle on its remaining debt after five years, while it will be charged 2 percentage points above Cho Hung's prime lending rate for interest payments.

Daewoo said it planned to manage Ssangyong as a separate company. The deal would give Daewoo access to technology from Mercedes-Benz, which has a 2.6 per cent stake in Ssangyong.

Korean cars, Page 8
Lex, Page 16

Market upheavals underlie global switch to domestic equities

Safety comes first as investors shun risk and get defensive

Since the middla of the year, investors have been reducing their exposure to international equities on a scale not seen since the Mexican peso crisis in early 1995. In particular, European and US investors seem to have lost their appetite for risk after the turmoil in global markets.

A "safety first" mentality has also boosted sales of domestic equities, with evidence of extensive switching out of cyclical stocks and into defensive sectors such as tobacco, utilities and food.

Although both trends were in evidence before October's global shake-up, analysts believe they have been accentuated by recent volatility. "What we seem to be seeing is a re-run of what happened after Mexico in 1995," says Joe Rooney, global strategist at Lehman Brothers.

Since late October, analysts have been watching mutual funds closely for indications of how retail investors reacted to the volatility. Although mutual funds are only part of picture, they report more frequently than institutional funds, providing a snapshot of changes in investment.

Recent statistics have shown a heavy reduction in international exposures. Figures from the Association of Unit Trusts and Investment Funds (Autif) in the UK showed a £319m ($532.73m) net redemption of overseas funds in October.

US mutual funds have shown similar trends, according to figures from AMG Data Services. But, whereas UK non-emerging market international funds have continued to show inflows, similar funds in the US turned negative at the start of November.

European information remains patchy. In France, international flows fell from a positive FFr3.4bn ($570m) in July to just FFr8.9m in October, Italian mutual funds showed interest in international stocks up to September.

"It is fairly typical for investors to retreat to domestic markets when their appetite for risk is diminishing," says Mark Howdle, European strategist at UBS. "This is what happened in 1987, 1990 and 1995."

Tracking institutional behaviour is more difficult because most funds report on a quarterly basis. Merrill Lynch, which conducts a monthly survey of fund managers' intentions, noted that European and US institutions started to run down large cash holdings to buy US equities and bonds in response to October's upheavals.

"The initial reaction was to start buying on the dip, accompanied by a surprising knee-jerk move into US shares on the view that the US was a safe haven," says Trevor Greetham at Merrill Lynch.

However, in November, European institutions slowed their purchases of US securities and concentrated on buying domestic shares.

"Cross-border flows seem to have dried up," says Mr Greetham. "Institutions still seem to be looking to buy shares on the dip, but the place they are buying is at home."

The shift back towards domestic equities bae prompted sharp divergences in sectoral performance across European and US markets.

"In Europe, there has basically been a polarisation, with investors putting money into classic defensive sectors, such as utilities, tobacco and food," says Mr Howdle.

The same trends are evident in the US, with domestic consumer stocks such as utilities and food the top performers in the Standard & Poor's.

However, there are signs that bargain-hunting investors are beginning to buy back into cyclicals that have suffered most in the recent shakeout.

Here, it seems that institutional investors are more optimistic. Having run down their equity positions in the summer as prices rose to dizzy heights, they appear to have seen the falls of late October and last month as a chance to get back into the market.

Retail investors, on the other hand, have been more cautious. Capital flows into US mutual funds have slowed and investors have been switching out of equities into bonds.

However, history suggests that investors do not stay on the defensive tack for long. Following the Gulf crisis in 1990 and the Tequila shock in 1995, international investment dried up, but only for short periods. In both cases, the period when investors actively repatriated funds represented the bottom of tha market. Even in 1987, when international flows went heavily into reverse, European equity markets rallied by 14 per cent in the 12 months after December, the peak period of repatriations.

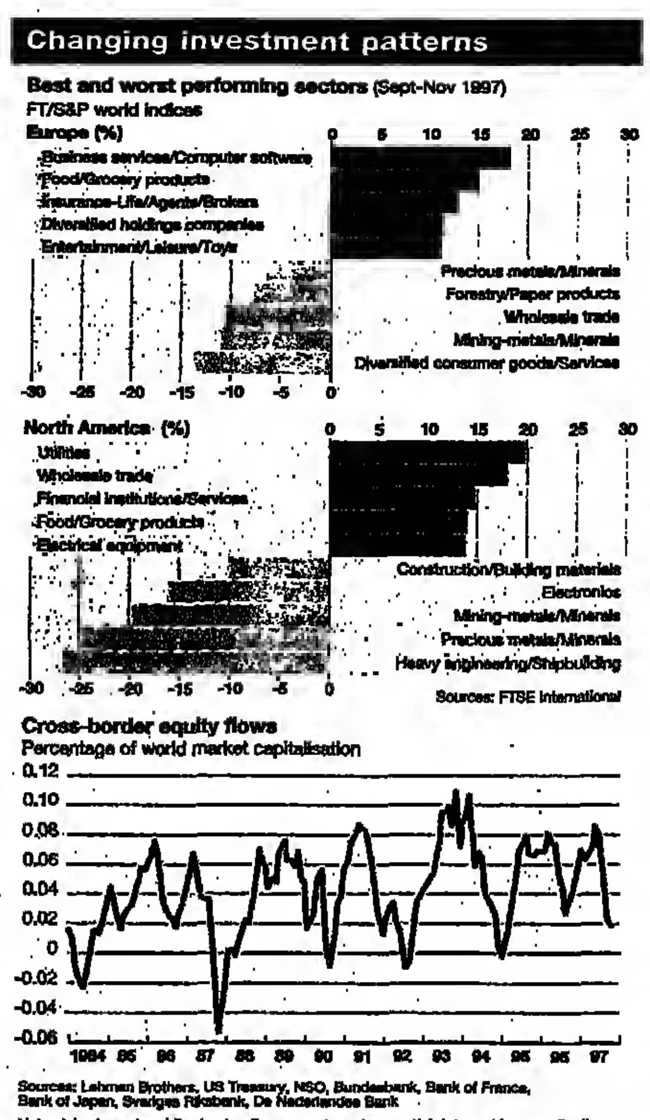
On that basis, with mutual fund flows suggesting we may be close to net repatriations now, the bargain hunters could yet be proved right.

"Capital flows can be useful as a contrarian indicator," says Mr Rooney. "When everyone and their dog is enthusiastic about equities, it is probably time to get out. The same is true in reverse."

Asia/Pacific liquidity, Page 21

Jonathan Ford

Changing investment patterns



Sources: Lehman Brothers, US Treasury, NSO, Bundesbank, Bank of France, Bank of Japan, Sveriges Riksbank, De Nederlandse Bank

Note: July, August and September figures are based on partial data and Lehman Brothers estimates. Aggregate of net purchases of non-domestic equities by US, UK, German, French, Japanese, Swedish and Dutch investors

Volvo plans growth drive

By Greg McIvor in Stockholm

Volvo, the Swedish automotive group, yesterday unveiled a three-year strategic drive to cut purchasing costs, slim management and lift productivity by 5 per cent a year.

Leif Johansson, chief executive, said the company, facing stiffening international competition and the globalisation of markets, needed to work harder to achieve its long-term target of an operating margin of 5-7 per cent.

In his most significant strategy etatement since joining Volvo from Electrolux in April, Mr Johansson said Volvo would accelerate its rate of product launches.

The aim would be to introduce one new product range in each of its six divisions every year. More vehicle models would be developed per chassis in order to maximise revenues and restrain costs.

Volvo said it envisaged a one-third reduction in its management as it sought a leaner decision-making structure.

Cutting costs and rolling out new models more quickly than before will be central to Volvo's bid to remain a strong independent rival to its three main European competitors – Daimler-Benz, Audi and BMW, all of Germany.

The first big test will come next year when Volvo launches a new upmarket saloon. The car, reputed to have cost SKr30bn ($3.8bn) to develop, will eventually replace Volvo's S90/V90 range.

Mr Johansson said he aimed to increase annual revenues by 10 per cent, which would yield group sales of about SKr250bn in 2000.

"Volvo is pursuing a growth strategy. We cannot downsize to reach sustainable favourable profitability ... [our strategy] involves both expansion and tightening," he said.

A series of bolt-on acquisitions was likely, although most of the growth would be organic. No acquisitions were envisaged in the cars unit.

Eastern Europe and Asia would form the cornerstone for Volvo's expansion, with sales in Asia advancing from SKr16bn last year to a predicted SKr30bn in 2000. Sales in eastern Europe were expected to quadruple to almost SKr15bn.

Volvo's lights, Page 19

AT&T cuts DirecTV link

By Richard Waters in New York

Michael Armstrong, the new chairman of AT&T, yesterday cut his company's ties with DirecTV, the satellite television business he once headed.

This ended a relationship intended to spearhead the US telecommunications company's push into the television business.

The move, which includes the sale of AT&T's small stake in DirecTV, represents the first concrete sign of Mr Armstrong's attempts to pare the company's operations since he arrived at AT&T two months ago.

Mr Armstrong, a former head of Hughes Electronics, the General Motors subsidiary which owned DirecTV, has put several peripheral businesses up for sale in his effort to bring the floundering company's focus back to its core telecoms activities.

The sale also amounts to another in the string of failures by US telephone companies to break into the broadcast and cable television business.

Some of the country's local telephone companies have pulled back from a series of cable and microwave television plans in recent months, capped by US West's recent announcement that it would shed its US West Media cable television group.

AT&T paid $137.5m for a 2.5 per cent stake in DirecTV in March, 1996, at a time when the leader in the US direct broadcast satellite business had 1.25m subscribers. Yesterday, it agreed to sell the stake back to DirecTV for $161.8m, a return on its investment of only about 10 per cent a year, despite the fact that the service has 3m subscribers.

The telecoms group sought to paint the investment as successful, particularly in the light of the big investments other telephone companies had made to break into television. Although successful, DirecTV had not added as many subscribers as expected, and had proved a difficult service to sell to customers over the telephone, AT&T said.

AT&T, in common with other telephone companies, had hoped to turn television into one of a broad array of services that it could sell in packages to its customers.

FT writers examine the repercussions of the $59bn tie-up between SBC and UBS, announced yesterday

■ THE DEAL – By George Graham and William Hall

SBC grabs the top jobs in new set-up

Union Bank of Switzerland shareholders will take 60 per cent of the equity in the new United Bank of Switzerland formed by UBS's merger with Swiss Bank Corporation.

But it was clear yesterday that SBC was lo the driving seat, laying claim to the lion's share of the top jobs in the combined bank and taking absolute control of its investment banking and fund management divisions. The merger resembles the combination in the US of Chase Manhattan and Chemical Bank, in which the Chase name survived under predominantly Chemical management.

"They got the name, we got the keys," quipped one SBC executive, alluding to the inclusion of SBC's three crossed keys in the new bank's logo.

UBS remained the largest and most heavily capitalised Swiss bank, but its capitulation in yesterday's merger showed the pressure it has been under both in its domestic business – where its performance has come in for criticism from Martin Ebner, the Swiss fund manager – and in investment banking.

Like other European investment banks, UBS has faced a difficult choice about whether to continue to invest in the construction of an expensive global network.

Barclays and National Westminster Bank in the UK gave up their global ambitions and sold their equity businesses. UBS has now gone even further by merging outright with its domestic rival.

Talks began over the summer, but ground to a halt. UBS was not willing to swallow the poison and recognise that SBC would emerge so clearly on top. Mathis Cabiallavetta, UBS's 52-year-old chief executive, takes over as chairman of the group, but the chief executive will be Marcel Ospel, 47, SBC's dynamic head.

Of the four main operating divisions, three are headed by SBC people: Rudi Bogni, in charge of private banking; Hans de Gier, at the new Warburg Dillon Read investment bank; and Gary Brinson, at the new Brinson institutional investment management group.

The only exception is Stephan Haeringer, 50, UBS deputy chief executive, who takes the same post under Marcel Ospel and will also head the consumer and corporate banking business – the least glamorous of the four core businesses.

Since the first round of talks, the pressures have mounted. Consolidation in the investment banking market has quickened and made UBS's dilemma in that business more pointed. It had planned a radical restructuring of its investment banking organisation, but dropped it when discussions with SBC resumed.

At the same time, UBS has been badly tarnished by its insensitive handling of the Nazi gold issue and has seen Mr Ebner ratchet up his pressure for change.

In the end, UBS's only other option might have been to merge with Deutsche Bank. Its Swiss neighbour proved more palatable, even at the price of losing out in the main jobs.

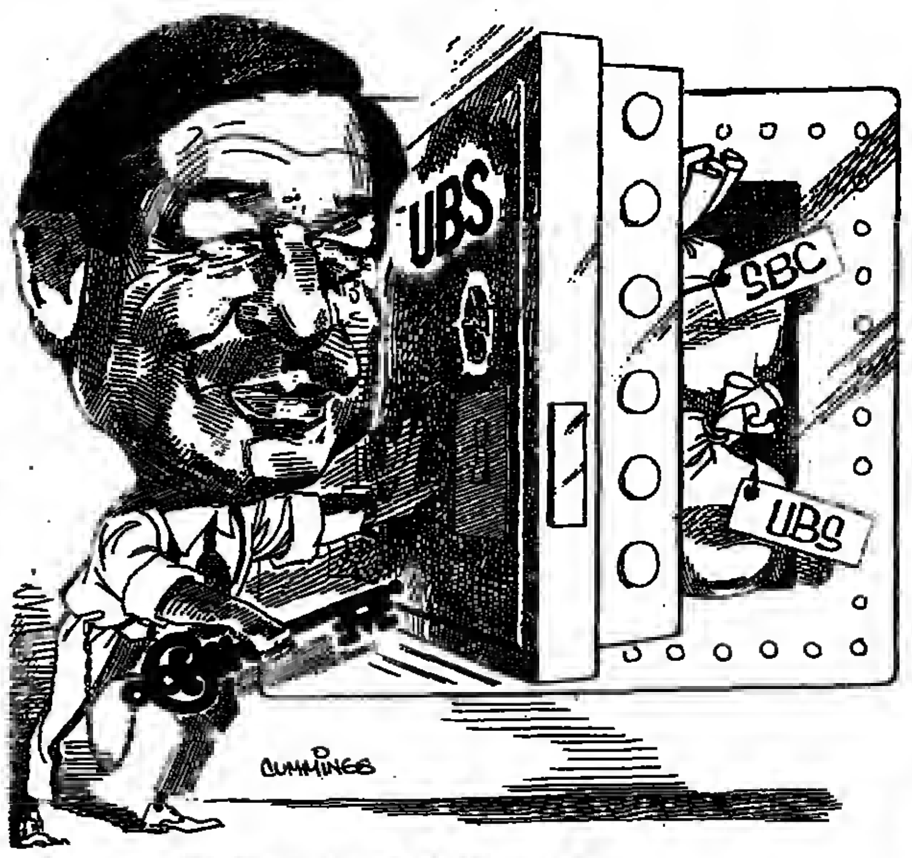
SBC faced the same questions – its purchase of Dillon Read is not generally reckoned to have been enough to allow it to break through in the critical US market, and it, too, has been slow to deal with its Holocaust problems – but had a much stronger business than UBS.

Both chairmen will step down, and Swiss bankers said this might have been a kay to the resumption of talks. SBC's Georges Blum is widely respected, while Robert Studer at UBS is distinctly controversial, especially for his blundering comments on Nazi gold. But Mr Studer is understood to have been unwilling to step down unless Mr Blum did likewise.

The key job of chief financial officer will go to Peter Wuffli, 40, the former McKinsey management consultant who holds the post at SBC. Felix Fischer, 48, UBS's well-regarded CFO, will be chief risk officer while Pierre de Weck, aged 46 and the son of a former chairman of UBS, will become chief credit officer and head of a new private equity divisioo which will take stakes in growth companies.

At Warburg Dillon Read, the SBC imprint is especially marked. Andrew Siciliano will run foreign exchange and interest rate operations; Markus Granziol, equities; and Fritz Hobbs, corporata finance. Only Werner Bonadurer will move from UBS, as co-chief operating officer alongside David Solo, the 33-year-old former O'Connor derivatives trader.

Although the deal was negotiated by the two banks' top executives, Morgan Stanley Dean Witter acted for UBS and Wasserstein Perella for SBC in providing fairness opinions and advice.



Holding the key: SBC's Marcel Ospel will be chief executive

■ SWITZERLAND

Reduced career prospects hit home

It used to be the case that a career in a Swiss bank was a job for life, but that is no longer the case.

Although the number of bank branches has been falling since 1990, the numbers employed have remained stubbornly high. Last year, numbers employed by Swiss banks fell by a mere 209 to 119,771.

The round of restructurings at the big three Swiss banks last year may have signalled that the era when a Swiss banker could count on reaching retirement age were over. However, yesterday's announcement that up to 13,000 jobs, of a workforce of 56,000, were to disappear came as a shock.

The fact that 6,000, or nearly half the total job cuts, would take place outside Switzerland did little to ease the pain.

The biggest cut, both in numbers employed and in percentage terms, will come in investment banking, where 6,000 jobs are to go. The consumer and corporate banking side, which employs 45 per cent of the combined workforce, will shed 5,000 jobs, or 20 per cent of its workforce. About 1,200 jobs will go in private banking, and while the 600 reduction in staff employed at the corporate headquarters does not sound much, it is nearly one-third of the total.

Jim Hyde, Merrill Lynch's London-based bank analyst, believes that the bulk of the job cuts will fall on UBS staff. He estimates that SBC has already shed 4,500 jobs since 1993 against a 2,700 reduction by UBS from its employment peak.

Marcel Ospel, who is to be chief executive of the new bank, went to some lengths yesterday to minimise the scala of compulsory redundancies. The two banks employ 38,000 in Switzerland and the loss of 7,000 Swiss jobs will be phased in over a period of three or four years.

The two banks estimate conservatively that numbers employed over the next four years will be cut by 2,500 through natural attrition. Another 700 staff will reach normal retirement age during the period and another 2,000 will be eligible for early retirement. This leaves 1,800 jobs to disappear through redundancies.

The other potential domestic obstacle for the merger is that the new group will have a market share of between 25 per cent and 35 per cent of the Swiss market. Both banks have been struggling for years to make a profit in this area, and the potential for cost-cutting is a key element in the group's plan to be earning net profits after tax of SFr1.8bn ($1.25bn) by the year 2002. This would be equal to a return of 18 per cent on equity – a return not achieved in domestic banking for well over a decade, if ever.

The combined group will have 550 branches, or roughly twice as many as Credit Suisse, its closest competitor, and nearly 5m customers.

Most analysts do not believe that the competition authorities in Switzerland will be able to block the merger on market share grounds. However, a concerted campaign by disillusioned small business customers could sway official Swiss thinking on this score. In an attempt to head off the turmoil on this front, UBS has promised SFr150m to invest in up-and-coming Swiss companies with promising growth opportunities.

William Hall

■ INVESTMENT BANKING – By George Graham, Banking Editor

Taking a painful road to European dominance

Pushing together the investment banking businesses of Swiss Bank Corporation and Union Bank of Switzerland will create the largest European investment bank and one of the top three in Asia.

But rivals and analysts questioned whether the new business would vault into the "bulge bracket" of dominant global investment banks.

Hans de Gier, head of SBC Warburg Dillon Read and new chief executive of the combined investment bank, acknowledged yesterday that his business still had some way to go, particularly in the US, the world's biggest investment banking market.

"It gives us a leg up in the US if we pull it off, but is it the major move? Is it 'Warburg takes over Goldman Sachs'? The answer is no."

There are several areas where the two investment banks can claim to be complementary. UBS has strengths in US equity research and corporate finance in financial institutions and technology. It has a strong equity derivatives sales team in London and is well ahead of SBC in structured finance and securitisation.

However, in many businesses the two compete head-on, and the merger process will be gruelling. "In the long run, it is very inspiring to be the dominant European player, but the road is a very painful one," said Mr de Gier.

About 6,000 jobs are expected to be cut from a combined investment banking workforce of 20,000, with 3,000-4,000 of the cuts falling in London. The overlaps are especially striking in the low-margin areas of the business such as foreign exchange, routine interest rate trading and European equities.

It is UBS which will bear the brunt of the cuts. It is not just the relative quality of the two businesses which has come into play – though SBC has clearly forged ahead of its Swiss rival since the acquisition of S.G. Warburg, the UK merchant bank, in 1995, and the purchase of Dillon Read in the US this year.

The real difference has been in the structures of the two investment banks. SBC Warburg moved quickly to an organisation in which product lines were managed on a global basis – now generally accepted as the model for an investment bank with global ambitions. UBS, on the other hand, remained organised along regional lines, with pockets of excellence where top managers were allowed their heads. Only recently did it move to a "matrix management" structure.

Given a choice between the two structures, SBC's was the clear winner, leaving UBS units to be slotted into the SBC Warburg framework. Rather than trying to combine two infrastructures into one, the new investment bank will be built entirely on SBC Warburg's infrastructure.

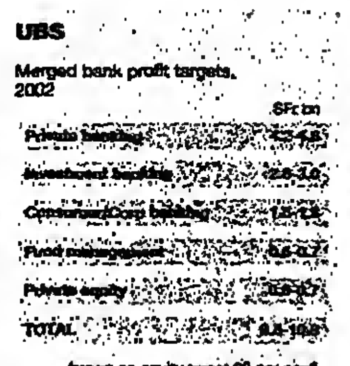
Although it might be possible to sell off some units which prove surplus to requirements, the efforts of Barclays and National Westminster Bank to sell their equities businesses have not left Mr de Gier optimistic. He is unwilling to waste time on sales when senior managers will be preoccupied with integration.

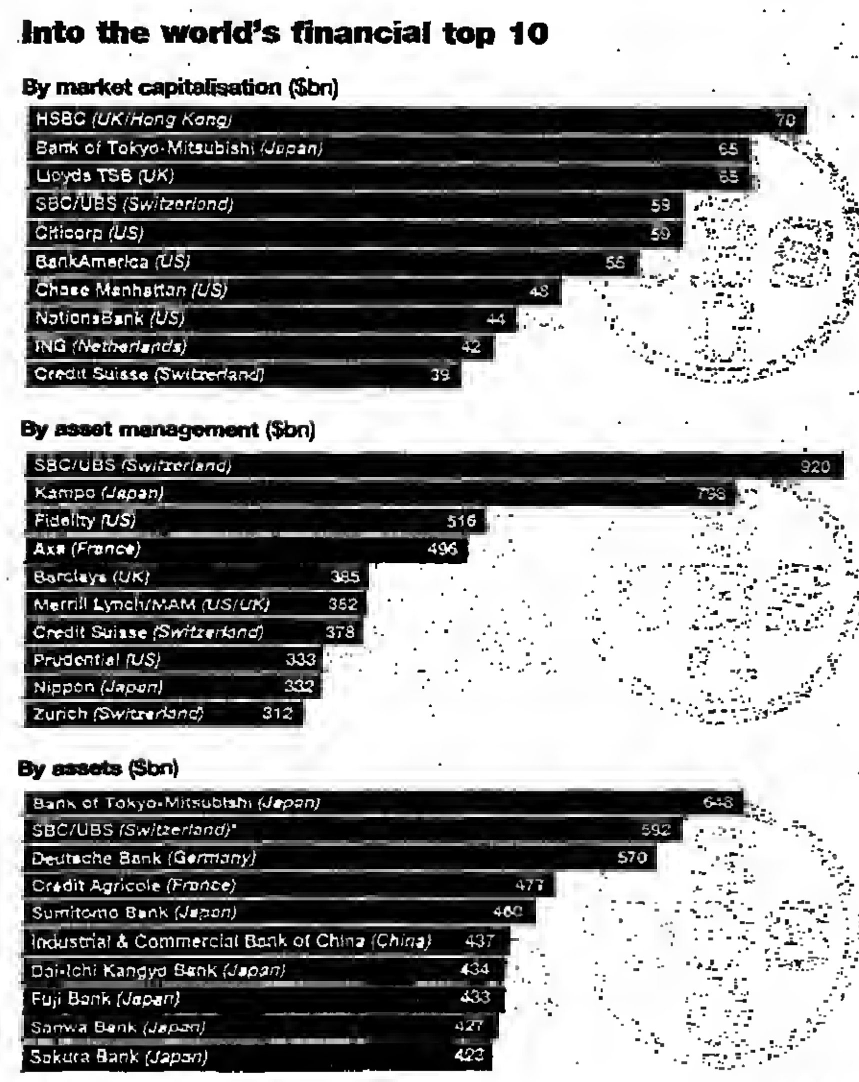
"If it is packageable and we can sell areas of complete overlap, obviously we will do so, but we have seen what a tortuous business it is."

So far this year, the combined firm would have ranked first among European equity bookrunners, first among global fixed-income bookrunners, first in European mergers and acquisitions and sixth in global M&A. According to Capital Data Bondware, the statistics agency, UBS and SBC Warburg combined captured 8.29 per cent of the eurobond market in the first 11 months of 1997. This would put Warburg DR ahead of Merrill Lynch – with 7.59 per cent – as the largest bond underwriting bank in the world.

However, bankers say this is simplistic. "You can't just add the business of the two together and expect that to be its market share," said one bond syndicate head in London yesterday. "Some of the big borrowers will want to distribute business among other banks."

Job cuts are expected to total over 1,000 in the trading and sales side of fixed-income, falling especially in the retail networks. "If the new bank can make the necessary reductions in its cost base it will be the strongest fixed-income player in Europe," said a syndicate head at a US bank in London. "On a global basis it will probably be top three."





Sources: International Investor; UBS; SBC; The Banker

* UBS 19th, SBC 29th

■ FUND MANAGEMENT – By Jane Martinson

A happy honeymoon begins

Lika any new partner in an arranged marriage, Gary Brinson yesterday acted the ever-attentive beau to his conquest, PDFM.

The new head of United Bank of Switzerland's institutional asset management business was full of praise for one of the UK's largest pension fund managers, and Tony Dye, its bearish chief investment officer.

"Tooy has my uncooditional support and enthusiasm for the investment direction be is taking," he gushed.

Mr Dye, who met his new boss for the first time yesterday, looked pleased by the attention but said it was too early to give precise details about bow it would work. "It's very early in the courtship process," be said.

Mr Brinson appeared too smitten to point out that the time for courtship was over: the relationship which put him in charge of "Brinson", the new asset management division, was already a legally binding one.

Following yesterday's merger, Mr Brinson and his Chicago-hased colleagues will run the SFr490bn ($340bn) business.

PDFM, which manages more domestic institutional assets at £60bn ($99.4bn) than Brinson's $82bn, will become part of his empire.

During a 45-minute visit to the London headquarters of PDFM, Mr Brinson emphasised a softly-softly approach to the merger. When asked how be planned to manage the complex process of combining the various entities, he replied: "Very carefully."

But while his protestations of affection for PDFM's managers appeared heartfelt, Mr Brinson's real interests were obviously focused on maintaining good relations with the wealthy relatives. "We are going to move quite slowly and deliberately to make sure tbat the client interests of both institutions are happy," he said.

While pension fund clients are loathe to change managers, PDFM clients have acquired a particular reputation for loyalty. The group has not suffered severe client losses in spite of a performance which has dragged along the bottom of league tables for the past two years following Mr Dye's switch out of equities into cash.

Mergers hetween asset managers are fraught with difficulties because of the importance of "culture".

Few pension fund consultants expressed happiness about the union yesterday. Nick Fitzpatrick, senior partner at Bacon & Woodrow, said: "The big fear is that it will change the culture. It's very difficult for clients who have stayed by PDFM during this period to remain loyal if the culture is altered."

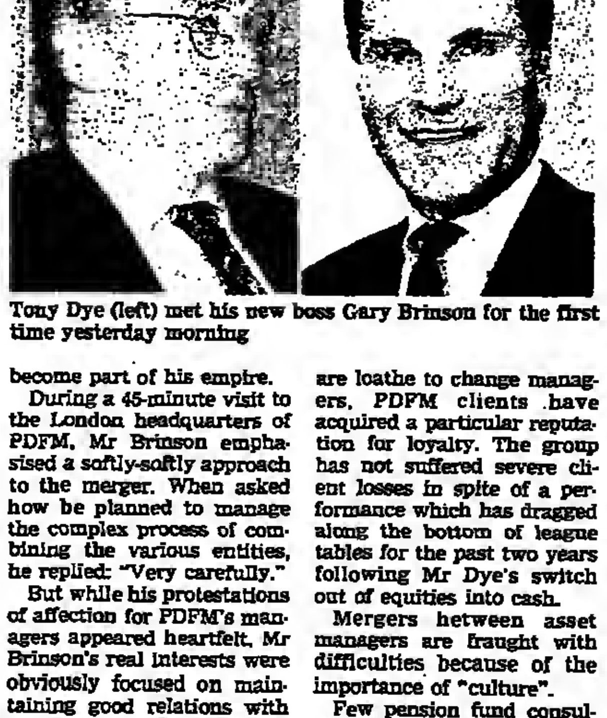
PDFM, which is likely to keep its name in the UK, was keen to stress that its independence as part of a larger group would continue. Indeed, there was an audible sense of relief among some PDFM managers that they would report to an asset manager rather than a "Swiss hureancrat".

PDFM members appeared satisfied by the fact that Mr Brinson had become increasingly bearish about the US equity market. Yesterday, he said: "You could describe our investment strategy as cautious and developing into extreme caution."

Mr Brinson, the 54-year-old Seattle-born son of a construction foreman and retail worker, is credited with some of the increasingly professionalism of the industry.

He led a management huyout of the company from First National Bank of Chicago in 1989 for $102m, and then sold it for $750m to SBC three years ago.

Mr Brinson, who flew back to Chicago yesterday morning, appeared to leave Mr Dye content with the forced pairing. "I hope it's the start of a long and fruitful relationship," he said.



Tony Dye (left) met his new boss Gary Brinson for the first time yesterday morning

■ PRIVATE BANKING – By William Hall in Zurich

World's new number one aims for 10% annual growth

The ooe area wbere tbe new group will emerge as an undisputed world leader right from the start is in private banking – the business of servicing the needs of the world's high net worth individuals.

The big three Swiss banks are already among the world's top players in this field.

With $580bn of assets under management, the enlarged UBS will have more than twice as big a business as Credit Suisse and more than four times as large a business as US banks sucb as Chase Manhattan and Citicorp.

In the first six months of 1997 UBS earned pre-tax profits of SFr1.1bn ($764m) from private banking; SBC earned SFr795m.

Eacb bank bas its own definition of private banking and UBS had a relatively low asset thresbold of SFr100,000 for would-be clients: SBC has a SFr600,000 floor. In the past this has meant that the profits of private banking have been mixed with traditional retail banking. Marcel Ospel, prospective chief executive of the new group, intends to raise the thresbold to a minimum of SFr1m of client assets per personal banking customer.

"Our ambition is to become the premier private bank io the world," he says.

He is conscious that the traditional advantages of a Swiss private bank account – tough bank secrecy laws, a strong currency and no foreign exchange restrictions – no longer carry the same weight as they did.

Preservation of capital is no longer the key to success in private banking and Mr Ospel intends to ensure that the main assets of the enlarged group will be an "outstanding investmeot performance and a client service second to none".

This year, be brought in Rudi Bogni, 50, a former head of SBC in London, to run SBC Private Banking. Mr Bogni's appointment was significant because he is more of a corporate finance man than a private banker.

It will be Mr Bogni's task to turn Mr Ospel's dream into reality. Private banking will be far and away the biggest source of profits for the enlarged UBS group and the target is to grow earnings by at least 10 per cent a year.

By 2002 it should be contributing SFr4.5bn, or 43 per cent of group profits.

There is scope for consolidation in private banking bnt the economies of scale are not as obvious as in retail banking.

Wealthy clients come to private banks for personal service ratber than standardised products. So Mr Bogni's task may oot be as easy as it sounds.

There is bound to be some loss of revenues by putting the two private banking businesses together and it is far more difficult to buy market share in the sector than it is in investment banking or even corporate banking.

Switzerland remains the world's leading offshore private banking centre but onshore private banking, wbicb probably accounts for 75 per cent of total private client assets, is growing more rapidly.

Hence, Mr Bogni's priority is to "expand substantially" the enlarged group's onshore business in centres such as London, New York and Tokyo.

His success will determine whethar UBS can achieve its beady target of a 20 per cent return on equity within the next five years.

Volvo's lights burn brighter

Future as an independent car and truck producer no longer seems ludicrous

Tell the average Swede something is wrong with Volvo and the silence that follows can outlast even Ingmar Bergman's pregnant pauses. Yet not so long ago, Sweden's biggest maker of cars and trucks faced the sort of existential dilsmmas familiar to the film director's characters.

With marriage to France's Renault in tatters and no new cars in the pipeline, Volvo's future looked bleak. Output was about 350,000 cars a year, when anything less than 1m was considered inadequate for survival. Even the company's brand values of security and reliability were under siege from foreign rivals.

Eight months into the job, Leif Johansson, group chief executive, believes the tide has turned. Operating profits soared 148 per cent to SKr5.8bn ($740m) in the first nine months of 1997 while net sales climbed 15 per cent to SKr130.9bn. Although the once lucrative beavy trucks business has got bogged down in North America, cars hava accelerated sharply. For the first time in years, Volvo's survival as an independent prodncer does not look ludicrous.

Mnch of the credit goes to Sören Gyll, the group'a former chief executive who sold off businesses from medicines to matches to focus on vehicles, construction equipment and marine engines.

But while Mr Gyll cut and pasted Volvo into a more sensible structure after the Renault fiasco of 1994, Mr Johansson has to implement the changes. The former Electrolux boss, a surprise successor to Mr Gyll, has been busy. Recent months have revealed a frantic product development drive to put cars on a more stable footing and expand trucks globally.

Mr Johansson divides Volvo's post-divorce period into two phases. After the Renault deal collapsed, the company needed some "quick fixes" to refresh its range. Nothing was quicker than to rebadge and, when necessary, facelift existing prodncts. The big 800 and 900 ranges became the 70 and 90 series, preceded by an S, V or C to denote saloon, station wagon or coupé/convertible alternatives.

The rechristening coincided with the arrival of new variants targeted at niche customers. Volvo had already introduced high-performance models to shake off its dull but dependable image and counter the encroachment of sportier marques such as Audi and BMW.

Volvo's lacklustre small cars, which never quite carried the kudos of its bigger models, have also been revisited. Under a joint venture with Mitsubishi Motors of Japan, tha Natherlands factory where they are built has been re-equipped for the new mid-sized S40 and V40 range alongside Mitsubishi's similar – but not identical – Carisma models.

Next year will see the start of phase two. Volvo will launch the first of two new models which should lift output above 500,000 units a year by early next century – from a forecast 411,000 this year – and guarantee its independence. The two cars will share a common platform (basic engineering structure) to save development costs. However, tha platform will be flexible enough to accommodate next year's replacement for the ageing 900 (now the S90 and V90) and, later, a smaller successor to the S70 and V70, as well as derivatives.

That will rednce Volvo's platforms from three to two, eliminating a costly indulgence for a relatively small manufacturer, and lower the break-even point through economies of scale. The engineering of each range, however, will allow saloon, station wagon and possibly coupé variants, powered by engines from diesels to sporty turbos. "Wa are defining lifestyle segments and trying to shoot off sharply designed products based on fewer basic platforms," says Mr Johansson.

The cars will also reflect much closer co-operation with suppliers. "We've recognised we can't do everything ourselves," he adds. But just as cars have been shaping up, Mr Johansson has been confronted with difficulties in trucks.

Leif Johansson: confident that rising sales of the new VN range will repair matters in the US

Profits have been eroded by severe US losses following a bungled prodnct changeover. Earnings in the ultra-competitive European market have also been squeezed, while sales in South America and Asia have been mixed after economic upheavals in both regions.

Mr Johansson is confident that rising sales of the new VN range will repair matters in the US. And analysts see considerable potential in Volvo's growing truck links to Mitsubishi elsewhere in the world.

Although cars and trucks account for 70 per cent of sales and about half group profits, the new boss has plenty of time for construction equipment and buses. He believes new infrastructura projects in eastern Europe, an area he knows well from Electrolux, hold great potential for construction equipment sales.

And demand for buses should improve as the industry consolidates and internationalises.

Further ahead, Mr Johansson will have to respond to the relentless consolidation of the North American truck business. While margins on cars and buses are now within sight of his 5-7 per cent target range, trucks scored a miserly 2.8 per cent in the first nine months.

Volvo's commitment to the North American market is not in doubt: the US is a trend-setting market no global manufacturer can ignore. But even Volvo peak market share of about 12 per cent (compared with just 9.4 per cent now) may not be enough for long-term profits.

"Our short-term priority has been to fix things. In the longer term, we need to ask about critical mass," he admits. "Possibly there's a niche strategy with 10-15 per cent. If we decide that's not viable, we'd have to look at the alternatives."

Many analysts reckon Renault's US Mack Trucks subsidiary would form an ideal acquisition. The French have said the company is not for sale. Maybe it will take Mr Johansson to tie the knot.

Haig Simonian

Solid debut for print group

By Vincent Boland

Shares in Heidelberger Druckmaschinen, the German printing press group, rose more than 4 per cent on their debut on the Frankfurt stock exchange yesterday, helped by unfulfilled demand from its share offering and firm European equity markets.

Trading in the shares opened at DM100, compared with a DM96 offer price, in one of the biggest initial public offerings in Germany this year. The shares closed at DM100.50.

"It got off to a very good start and is trading well in the market," said one banker involved in the IPO.

Observers said the offer showed the resilience of the European new issue market, especially for shares in companies in sectors such as printing press-making that are not widely available.

Strong demand led to bids for 74m shares, but only 8.2m were issued. Two-thirds of the issue was placed with institutional and retail investors in Germany, including most of Heidelberger's 10,000 domestic employees. The remainder were sold to investors in the US, Europe, and Switzerland. Heidelberger raised nearly DM800m ($449m) in the issue, which represented about 15 per cent of its capital.

At the offer price, Heidelberger, the world's biggest maker of printing presses, has a market capitalisation of DM5.3bn. It remains 56 per cent-owned by Lahmeyer, a subsidiary of RWE, the German utility.

Commerzbank, the German bank, was global co-ordinator and book-runner for the IPO. Paribas, Deutsche Morgan Grenfell and Dresdner Kleinwort Benson acted as lead managers.

The offer price was at the high end of the indicative range and put Heidelberger on a price-earnings ratio of about 16 times 1997 earnings, the banker said.

EUROPEAN NEWS DIGEST

Executives quit at Marseillaise

Six top executives of Société Marseillaise de Crédit, the troubled French state-owned bank, bave left the institution after the appointment of new management last week. Natexis, the French investment bank which was advising Marseillaise de Crédit on its future privatisation, is also expected to be replaced as a result of the nomination last Wednesday of a new head, Patrick Careil, who is also chairman of the state-owned Banque Hervet.

The changes come after the French government forced the resignation of Pierre Habib-Deloncle, two years after he was named chairman of the bank at the express wish of President Jacques Chirac. Mr Careil warned that Marseillaise de Crédit would be forced to cut its operating costs – inevitably leading to job losses. He said any decision to sell the bank would depend on the French government, but that it would be likely to take the form of a trade sale rather than a public offer. *Andrew Jack, Paris*

■ TRUCKS

VW-Scania talks concluded

Scania, the Swedish truckmaker, disclosed yesterday it had held abortive talks with Volkswagen, the German automotive group, over the joint development of a mid-sized truck. The Swedish group said a preliminary study had been concluded during the autumn and would not be pursued. *Greg McIvor, Stockholm*

■ TELECOMS

Arcor targets Telekom customers

Mannesmann Arcor, of Germany, yesterday unveiled a long-distance service and pricing plan aimed at wooing customers from Deutsche Telekom when the German telecoms market opens up on January 1. Arcor said it would offer private customers and small businesses rebates and rates that undercut Telekom rates by 13-27 per cent on calls requiring an area code. *Reuters, Frankfurt*

■ SWEDEN

Former Swedbank head suspended

The Stockholm stock exchange yesterday suspended for six months the former head of trading at Swedbank Markets, the broking arm of one of Sweden's largest banks, in connection with share trades which distorted the prices of some of the country's most-traded stocks. Four brokers were also suspended for one month for the transactions, which occurred during a last-minute buying spree on November 13. The trades had the effect of reducing Swedbank's risk on a new index-linked bond by inflating the prices of several stocks. *Greg McIvor*

■ ACCOUNTANCY MERGER

Brussels to reconsider plan

Competition authorities in Brussels have asked Price Waterhouse and Coopers & Lybrand to resubmit plans for a global merger. The firms said the first submission, made on December, 1 had been rejected because of a "technical hitch". The two firms in Sweden, while backing the merger, would need extra time to overcome local regulatory problems. *Jim Kelly, Accountancy Correspondent*

Toyota set to resume Thai production

By Michiyo Nakamoto in Tokyo

Toyota, the Japanese carmaker, will resume production in Thailand in January after suspending operations for nearly two months because of the sharp fall in demand following the Thai currency crisis.

The company said it would restart operations at its two Thai facilities and divert a larger volume of products to export markets. Exports of the Hilux pick-up truck manufactured at the Samrong plant will be expanded from 600 to 30,000 units and increased exports of the Soluna, Toyota's Asian car, are also being considered.

The difficulty Thai consumers face in obtaining financing for large purchases has led to an increase in vehicle inventories and has forced production cuts at most Japanese factories since the summer. Japanese vehicle manufacturers, which have high shares of the south-east Asian markets, have been keen investors in Thailand.

Toyota said sales in Thailand fell 26 per cent to 86,000 units between January and October. Honda's Thai sales in October plunged to 1,250 units, or about one-third of last year's level, and other carmakers have also suffered from a sharp fall in demand.

The latest move by Toyota underlines the increasing globalisation of its operations. The company indicated that Thailand was being positioned as an important production and export base for the Hilux pick-up truck in Asia. Although the currency crisis has hit local demand, the lower value of the Thai baht increases the cost competitiveness of exports.

Thailand will be taking over some of the current output from Japan. Hino, a Toyota affiliate, will reduce output of the pick-ups by a level comparable to the increase in Thai exports. Markets in the Oceania region will be supplied less from Japanese production and more from Thailand.

Toyota will also export diesel engines from Thailand to Japan for the first time in annual volumes of 20,000 units. Exports of engine blocks and camshafts to Japan will also be expanded by an additional 450,000 units from 917,000 in the past financial year.

Meanwhile, plans to export more Solunas are being considered. The car is exported to Singapore and Brunei but volumes have been small at about 1,000 units a year. Toyota could export it to larger Asian markets such as Indonesia, Malaysia and the Philippines.

Toyota's decision to resume production in Thailand follows Honda's move to manufacture the CR-V, a sports utility vehicle, at its Thai facility in order to support production, which has fallen by about half.

Takeover rumours brewing over San Miguel

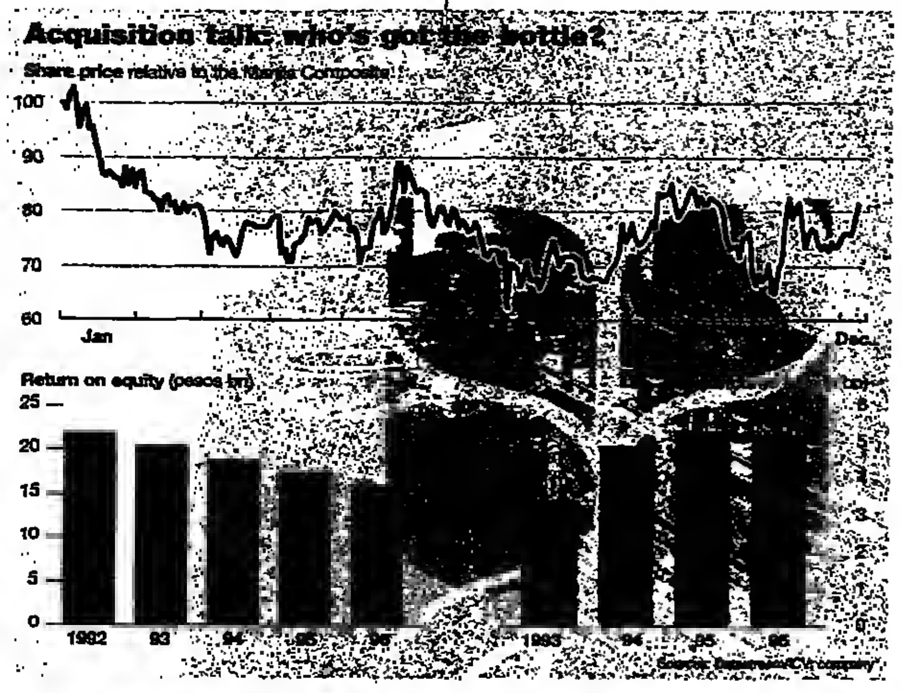
Rumours of an imminent hostile takeover of San Miguel, the Philippine food and beverage group, by First Pacific, the Hong Kong-based conglomerate, are causing a stir in an otherwise listless Manila stock market.

San Miguel B-shares jumped more than 7 per cent yesterday to 53 pesos, after the group's announcement late on Friday that it was seeking advice on how to protect itself from a suspected bid from First Pacific. In less than a week, the share price has risen 16 per cent. Takeover speculation took off last month after the $74m sale of a 2 per cent stake in the group to an undisclosed buyer.

San Miguel might not appear an ideal target. First, any acquisition would have to overcome an ongoing share ownership dispute covering about 48 per cent of the group's equity. This has occupied the Supreme Court since 1986, when Corazon Aquino's government sequestered shares belonging to Eduardo Cojuangco, former San Miguel chairman, arguing they had been fraudulently acquired.

Some analysts believe a deal has been struck between Mr Cojuangco, and Indonesia's Salim group, which controls First Pacific. This agreement supposedly allows Mr Cojuangco to sell one tranche of the sequestered shares, amounting to about 20 per cent of the group, in return for the government taking the remaining 28 per cent. The problem, as one board director puts it, is how any deal can be sealed when the fiercely independent Supreme Court has yet to rule definitively on the issue.

Timing appears to be another obstacle. Five months before presidential elections, the prospect of transferring ownership of a flagship Philippine company to an overseas conglomerate is intensely political. As one analyst says: "If a deal has been struck between Mr Cojuangco, the government and Salim group, politicians will certainly cry foul. They and local businessmen will ask why they were not approached."



First Pacific is keeping its cards close to its chest. Although Manuel Pangilinan, the conglomerate's managing director, has signalled that he might be seeking expansion in the region's battered economies, investment analysts remain cautious about the prospects of a bid for San Miguel.

Speculation intensified after last week's sale of Pacific Link, First Pacific's Hong Kong mobile telecoms division, which brought the group about HK$2.7bn (US$349m) and took gearing below 50 per cent.

However, the proceeds would provide only a small part of the funds required to buy a stake in San Miguel and appear to have been earmarked for debt reduction.

There are also questions about the logic of a move by First Pacific.

"They have significant exposure to south-east Asia," says Mike Warran, Hong Kong strategist at Goldman Sachs. "The impression I get from recent meetings with the company is that there is some belt-tightening going on."

More likely, according to Hong Kong commentators, is that First Pacific could act as a vehicle for the Salim group, which already has substantial interests in food and beverages, or as a means of providing a boost for Metro Pacific, the Philippines arm of First Pacific.

However, in spite of short-term bullishness prompted by a potential takeover, sentiment towards San Miguel is predominantly bearish.

A market share of about 80 per cent in its core domestic beer business is under pressure from Asia Brewery, the aggressive local group owned by Lucio Tan, the Chinese-Filipino tycoon.

Meanwhile, analysts voice increasing concern at the group's sluggish performance under the management of Andres Soriano, the beleaguered chairman and chief executive. San Miguel has also emerged as one of the local companies worst hit by the Asian currency crisis.

The latest talk in Manila is of Mr Soriano's recruitment of a "white knight" team of local business leaders to fight any hostile bid.

"Is that likely, given the economic conditions and Mr Soriano's poor record?" asks one broker. "I don't think so."

Justin Marozzi and John Ridding

ASIA-PACIFIC NEWS DIGEST

Hopewell holds back payment

Hopewell Holdings, the Hong Kong-listed infrastructure group, is withholding a scheduled annual payment of Bt600m ($14.4m) to the State Railway of Thailand. The payment is the latest step in the company's questioned participation in the $3.7bn Bangkok Elevated Road and Train System (Berts).

Thailand has said Hopewell has been removed from the project, but Hopewell says it has received no notification to that effect and is still trying to meet Thai officials to find out what is happening. In the meantime, work on the project has ceased.

The stalled project is in part a victim of the problems in the Thai economy. In the summer, Hopewell said the de facto devaluation of the baht had pushed costs up and in September the Thai cabinet voted to cancel Hopewell's contract for the project.

Hopewell said yesterday it was entitled to hold back money as the SRT had not handed over land to Hopewell as planned. The annual payments are for Hopewell's concession rights for Berts. Hopewell has made seven previous annual payments on time, totalling $114m, the company said.

Colin Weir, director of Hopewell Thailand, said: "The money we have previously paid to the SRT more than covers the scheduled handover of land to date. The contract allows for deferral of payment when land is not handed over. This is what has happened."

Louise Lucas, Hong Kong

■ INSURANCE

NZ's Tower plans to demutualise

Tower Financial Services, New Zealand's oldest life and general insurance group, yesterday announced it was seeking High Court and member approval to change from a mutual to a public company, and would hope to list on the Australian and New Zealand stock exchanges next year.

Tower – formerly the Government Life Office – has 400,000 members, or policyholders, in Australasia with assets under management of NZ$10bn (US$6bn). Last year its premium income rose 33 per cent to NZ$1.4bn and its policyholders' reserves also rose a third to NZ$300m.

Colin Beyer, chairman, said that under the proposal, Tower's policyholders would change their membership or policyholders' rights for shares in the new company. Demutualisation would release significant value within the group and provide access to new capital for further expansion, he added.

James Boonzaier, group managing director, said the proposed demutualisation would be submitted to the High Court for approval and then put to all members within the next six months.

To participate, members need to have held policies up to December 8; new clients after that date will not be eligible for the share allocation.

Guinness Peat, the company controlled by Sir Ron Brierley, founder of Brierlay Investments, is waging a campaign to demutualise Tower and merge it with Tyndall, a Guinness Peat subsidiary which operates in Australia and New Zealand.

Terry Hall, Wellington

■ INDUSTRIAL GASES

BOC India hit by competition

BOC India, which is 54.8 per cent owned by the UK's BOC group, reported a 17.6 per cent fall in pre-tax profits for the year to September 30, reflecting a slowdown in economic activity and growing competition from new entrants, such as Praxair of the US, in the country's industrial gases business.

Sales rose 4.2 per cent to Rs2.33bn ($60m), but pre-tax profits fell to Rs319m, from Rs387m. Net profits plunged to Rs94m, from Rs134m a year earlier. Earnings per share fell from Rs4.91 to Rs1.71. The company is paying a dividend of Rs2 a share, compared with Rs2.5 paid in 1995-96.

The results were below expectations and shares in BOC lost Rs3.80 at Rs43. According to analysts, the group will face difficult times in the first half as the steel and fabrication industries, two important consumers of industrial gases, continue to fare badly. The company has almost completed the restructuring of its businesses, including staff cuts.

Kunal Bose, Calcutta

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on 08.12.97 — Final Prices for Trading on 11.11.97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	30.34	20.78	21.32	1.18
0100	44.77	20.78	21.32	1.18
0130	50.00	20.78	21.32	1.18
0200	50.00	20.78	21.32	1.18
0230	21.75	20.78	21.32	1.18
0300	21.75	19.18	19.74	1.18
0330	21.75	20.78	21.32	1.18
0400	21.75	20.78	21.32	1.18
0430	21.75	20.78	21.32	1.18
0500	18.33	19.18	19.74	1.18
0530	10.54	10.46	10.46	0.00
0600	10.52	10.47	10.47	0.00
0630	10.51	10.47	10.47	0.00
0700	23.47	20.31	20.87	1.18
0730	30.42	26.51	27.07	1.18
0800	32.87	28.60	29.18	1.18
0830	30.84	28.60	29.18	1.18
0900	32.60	31.25	27.81	1.18
0930	36.01	31.26	31.83	1.18
1000	36.01	31.27	37.84	1.18
1030	36.01	36.38	36.93	1.18
1100	36.02	36.36	36.93	1.18
1130	36.04	36.35	36.93	1.18
1200	36.05	28.74	29.30	1.18
1230	61.34	28.73	29.30	1.18
1300	61.34	28.73	29.29	1.18
1330	36.03	28.73	29.29	1.18
1400	36.03	28.73	29.29	1.18
1430	36.02	28.74	29.30	1.18
1500	36.02	31.27	31.84	1.18
1530	36.13	31.32	31.91	1.18
1600	52.87	36.84	37.59	1.18
1630	84.14	55.71	58.99	1.18
1700	108.66	78.12	87.04	1.18
1730	145.66	126.74	137.08	1.18
1800	123.42	122.36	131.68	1.18
1830	71.99	65.65	70.60	1.18
1900	51.13	52.45	54.39	1.18
1930	46.82	41.00	42.12	1.18
2000	43.20	38.17	38.64	1.18
2030	35.99	38.60	39.17	1.18
2100	32.86	31.25	31.81	1.18
2130	30.42	28.60	29.18	1.18
2200	30.42	28.60	29.15	1.18
2230	23.47	28.60	29.15	1.18
2300	22.91	26.18	26.74	1.18
2330	23.47	18.86	19.42	1.18
2400	18.94	20.31	20.87	1.18

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.80 MWh becomes 1.68p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of this revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0118 945 6766 between 9.00am and 5.15pm Monday to Friday.

Energy Settlements and Information Services Limited

Daiwa plans Y25bn share buy-back

By Gillian Tett in Tokyo

Daiwa Securities, Japan's second-largest broker, yesterday announced the largest share buy-back to date in the country's financial sector.

The company said it planned to spend up to Y25bn ($192m) purchasing up to Y50m shares – almost 4 per cent of the total – between now and next June.

The move comes after Daiwa's share price plunged in recent weeks becauee of rumours that the group was holding secret *tobashi* off-balance eheet losees. The rumours emerged after Yamaichi, formerly Japan's fourth-largest broker, collapsed last month with some Y260bn worth of *tobashi* losses. These are losses which are concealed by being shuffled between different accounts.

Daiwa denies it holds secret losses. It has recently cancelled some Y120bn worth of *tokkin* accounts in an effort to boost market confidence. These are accounts through which corporate clients have traditionally invested surplus cash, and have long been rumoured to be a source of *tobashi* losses.

However, the broker's share price yesterday fell Y6 to close at Y405 – about half its level at the start of October. Analysts warned that the rumours could erode Daiwa's credibility further unless the group took further steps to boost confidence. Robert Garone, of Dresdner Kleinwort Benson, said: "The share buy-back is good news, but the overriding doubt remains these market rumours."

Daiwa said yesterday it had decided to buy back the shares to prepare for the looming "Big Bang" financial deregulation. "We are doing this because our share price has fallen and we want to return profits to shareholders," it said.

The buy-back is the first by any broker in Japan and the largest by any financial company. Until now share buy-backs have been rare, although some groups – including Daiwa – have been quietly buying small numbers of shares.

Daiwa also said it was planning to reorganise its corporate structure. Although plans are still being discussed, the changes are likely to cut the number of divisions from 25 to 10.

Daiwa further announced that it was making a Y47bn write-off for supporting two troubled affiliates related to the property market.

Fujifilm snaps up market share in US

Spurred by increasing competition at home, the Japanese group is stepping up expansion overseas

When Fuji Photo Film first made its foray into the US, the usual reaction to its Japanese name was: "Fuji who?" People could not pronounce the name, much less spell it, Fujifilm officials remember.

Almost 30 years later, the green packaging of the company's colour photographic film has taken more shelf space from Kodak's yellow packets.

This year, Fuji's market share in the US has risen to 20 per cent, according to some market studies.

The company's push into the US is expected to be strengthened by an interim ruling last Friday by the World Trade Organisation, which absolved Fuji Photo Film of charges that it had obstructed foreign access to the Japanese market.

Expansion in the US is a growing necessity for Fuji. Fierce competition from foreign makers, including Kodak, is threatening its pre-eminence in its home market.

Profitability in Japan is falling because of sharp declines in prices, while the rapid spread of digital imaging poses a further challenge.

In the past, Japan's population of enthusiastic photographers, Fuji's strong hold over the distribution system and the difficulty of penetrating overseas markets – dominated by Kodak in the US, and Germany's Agfa in Europe – led the company to focus on the domestic market. It derived 90 per cent of its operating profits from Japan.

In addition, profit margins for colour film were much higher in Japan, at about 12 per cent against 6 per cent for overseas sales, says Masashi Kubota, industry analyst at ING Barings in Tokyo.

Now, however, retail prices of colour film in Japan are about 30 to 40 per cent below prices in the US, says Toshihiko Ginbayashi, industry analyst at Morgan Stanley in Tokyo.

While Fuji denies it is losing ground in Japan, analysts believe that its share of the domestic market has slipped from more than 74 per cent earlier this decade to about 67 per cent. The main reason given is the penetration of foreign brands and own-label film sold cheaply at supermarkets and discount stores.

Furthermore, Fuji has lagged behind in digital imaging, where companies such as Canon and Casio have been extremely successful (Japanese companies are enjoying strong domestic demand for digital cameras, in contrast with the heavy losses Kodak has suffered in its digital imaging business). Fuji's weakness in this field could leave it behind in one of the fastest-growing sectors.

Against these developments at home, Fuji has been aggressive overseas, particularly in the US. Earlier this year, it started making photographic paper at a facility in South Carolina and it is expanding its US production to start integrated colour film production.

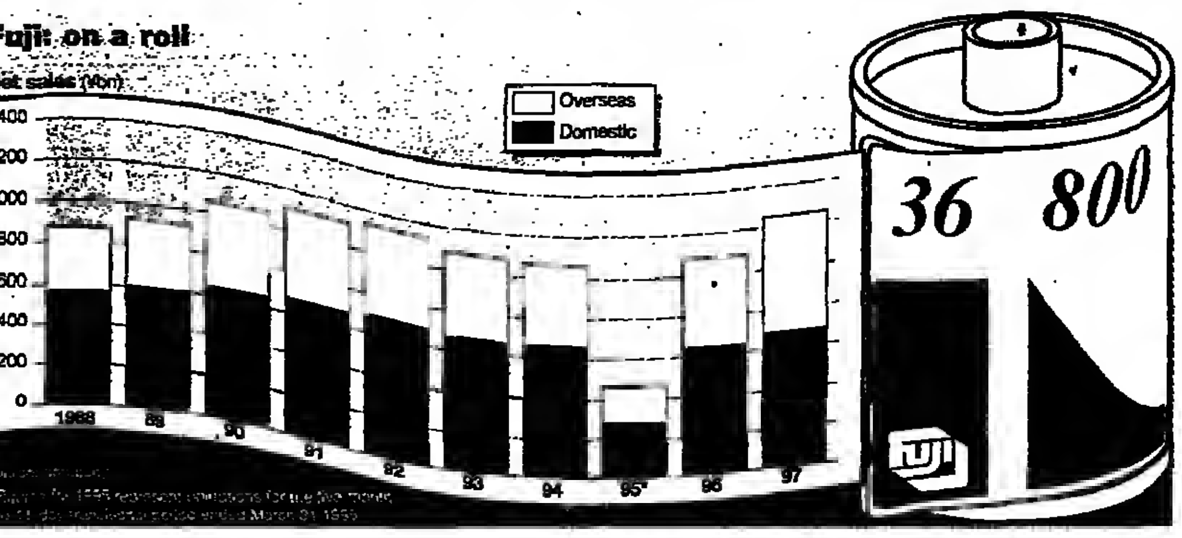
Last summer, it acquired six photo development centres from Walmart, the US retailer – a deal that lifted Fuji's share of Walmart's shelf space for colour film from 20 per cent to 34 per cent, says Mr Ginbayashi at Morgan Stanley.

According to Nielsen, the market research company, Fuji's share of the US market for colour film – the largest in the world – has increased over the past year to as much as 20 per cent. For the past 15 years, in contrast, its market share had been stagnent at about 10-12 per cent.

Kodak, which has blamed its poor performance in the past year in part on Fuji's inroads in the US, has suggested that its rival is pursuing a low-pricing strategy in order to increase market share.

The US company has also accused Fuji and the Japanese government of keeping foreign competition out of the Japanese market. The World Trade Organisation is expected to reach a final decision in the next few months.

Fuji strongly denies Kodak's accusation on pricing. "We have never reduced prices in order to gain market share," says Atsushi Yoneda, general manager in charge of international marketing in the consumer products division. "This is unthinkable, because we are committed to consistency in everything. Sudden price cuts go against that policy."



However, analysts note that Fuji needs to increase sales in order to justify the extra capacity arising from its US investments.

"Because the factory is opening, they have to sell," notes John Chanoki, industry analyst at HSBC James Capel in Tokyo.

As Mr Yoneda also admits: "We employ a lot of people in the US, so we cannot fail."

Fuji's penetration of other overseas markets has also been impressive. In Asia, its market share has risen to 50 per cent from about 48 per cent, notes Mr Ginbayashi.

In China, it is expanding production of cameras fourfold by adding production of Advanced Photo System cameras there. That move is expected to strengthen its position in the APS market in Japan, the US and Europe, where the cameras will be exported.

Meanwhile, in Europe – where Kodak leads Fuji in terms of market share – production at the Japanese group's Dutch facility has been increased, and Fuji earlier this year raised its stake in its French distributor from 50 per cent to 100 per cent.

If Fuji's recent success in the US is any guide, Kodak, in particular, will need to strengthen its global defences.

Michiyo Nakamoto

Brewing partners open first plant

By Raymond Colitt in Caracas

Belgium's Interbrew and Venezuela's Cisneros Group inaugurated a $150m brewing plant in Venezuela, the first in a new joint venture that hopes to expand aggressively in the Latin American market.

The plant, which is located 100km south-west of Caracas, has the world's largest bottling line with an initial brewing capacity of 3m hectolitres per year. This could grow to 5m bectolitres.

It marks the first big initiative of the Interbrew-Cisneros joint venture, announced lest month. Interbrew's operator in the venture is Canada's Labatt Brewing Co, its subsidiary, which will provide the tecbnical expertise.

The Interbrew-Cisneros alliance hopes to double the market share of the Regional brand in Venezuela from 8 per cent.

The Venezuelan market is dominated by Cisneros' rival Polar group, which has an estimated 80 per cent to 85 per cent market share.

The Cisneros' bottler broke a 50-year alliance with Pepsi-Cola in favour of Coca-Cola last August.

The move provoked a fierce cola war in Venezuela, one of the few country's where Pepsi-Cola had outsold Coca-Cola.

"We see the opening of this new brewing facility as an important step for our expansion in the Americas," said Hugo Powell, president of Labatt and chief executive of Interbrew in the Americas.

He added that it was the first brewery opening in the Americas for Labatt in 25 years.

Through the partnership, Interbrew and Cisneros plan to conquer between 10 per cent and 15 per cent of the Latin American beer market, which is expected to grow annually by more than 5 per cent during the next five years.

An estimated 225m hectolitres are sold on the Latin American beer market annually.

The joint venture partners said they planned to invest $2bn over the next five years.

Asia-Pacific liquidity at record high

By Jane Martinson, Investment Correspondent

Fund managers in the Asia-Pacific region are holding an "unprecedented" amount of cash, prompted by continued fears about the area's stock markets.

The average cash holding of institutions in the region, managing assets of $404bn, was 19 per cent at the beginning of this month, according to a survey of 30 leading fund managers conducted by Gallup for Merrill Lynch, the US investment bank. This compares with cash holdings of 9 per cent last month and 3 per cent in August.

Bijal Shah, global strategist at Merrill Lynch, said: "Liquidity is et a historic high. We can't remember such a bear market in the past 15 or 20 years."

He forecast thet fund managers would be forced to buy more equities before the year-end, partly because of individual fund and legislative limits on the amount of cash held. "A lot of managers need to get these percentages down to at least 10 per cent," he said.

COMPANIES AND FINANCE: THE AMERICAS

Insurers in the US set for bumper 1997

By Richard Waters in New York

The absence of big disasters during the latest North Atlantic hurricane season, which officially ended a week ago, has pnt the finishing tonches on wbat is likely to be the US insurance industry's most profitable year for a decade, according to industry-wide figures released yesterday.

However, the insurers' latest profits have added to the mountain of capital that has already built up in the industry, and growth bas remained stagnant.

The capital surplus of US property/casnalty insurers exceeded tbeir premium income for the first time in the year to the end of September, according to tbe Insurance Information Institute, the trade association wbicb released tbe latest figures.

American insurers generated pre-tax income of $26.5bn during tbe first nine months of this year, 88 per cent more tban a year before, the trade association said.

That was equivalent to an annualised rate of return of 11.2 per cent, according to Sean Mooney, an economist with the trade association, putting tbe indnstry on track for its bighest returns in ten years – despite the massive addition to its capital base.

The absence of big insurance losses and the surge in US secnrities markets, whicb added to the industry's unrealised capital gains, pusbed tbe insurers' capital surplus to $296bn, wbicb is some 22 per cent higher than its level of a year before.

This ballooning of capital, wbicb is set to leave the indnstry tbis year witb around twice the surplus it had at the time that Hurricane Andrew hit in 1992, has come at a time of little growth: premiums increased only 3.6 per cent in the first nine months of this year, to $210bn.

Dow Jones, NBC set for alliance

By William Lewis and Richard Waters in New York

Dow Jones and NBC, owned by General Electric, are expected to announce as early as today a global television and internet alliance.

A 50-50 joint venture will bring together the existing overseas television operations of CNBC, the cable business and entertainment channel, with Dow Jones's Asian and European business news networks. It will be branded as CNBC, and as a service of both NBC and Dow Jones.

In Europe and Asia, CNBC and Dow Jones will combine their existing interests in an attempt to cut losses at both companies and strengthen their market positions.

In the US, Dow Jones is set to become an important contributor of programming to CNBC, which will pay a licence fee for the rights to show its programmes.

The completion of a deal will end a protracted negotiation between the two sides which has been complicated by the inclusion of botb Tele-Communications Inc, which owns part of Dow Jones's European Business News, and Microsoft, which with NBC runs MSNBC, a cable news service that also has an internet-based news service.

Talks have been held to enable Dow Jones to provide news to MSNBC, which operates an internet service in parallel with its cable television channel.

Dow Jones hopes that the arrangement will halp it stem the losses it has been experiencing. The US business information group notched up pre-tax losses of $48m from its telavision operations last year, compared with $38m the year before, in part becanse of attempts to expand European Business News. Since then, the company has sold its half share in WBIS, a combined business and sports channel in New York that accounted for the bulk of its losses in television.

Separately, Dow Jones has put up for sale Dow Jones Markets, the financial information eervice which used to be known as Telerate. Goldman Sachs, the investment bank advising Dow Jones, is soliciting bids for the markets division, bnt Dow Jones has retained the right not to sell the unit, leaving open other possibilities for its future.

The company continued yesterday to say that no decision over the markets division had been reached.

Financial Times Television, which is owned by Pearson, the media group, stands to lose a programme contract with CNBC in Europe as a result of the expected deal. The contract to supply seven hours of programming daily runs out in January.

Working to keep Eli Lilly gilded

Prozac and mad cow disease are exercising the mind of Sidney Taurel, chief operating officer and head of pharmaceuticals at Eli Lilly, the US pharmaceuticals company.

Prozac, the anti-depressant that is probably the world's most famous prescription drug, is also Lilly's biggest selling product: its sales in the third quarter alone were worth $705m, about 30 per cent of the company's total.

The trouble is that Prozac'e patent expires early next decade and, if the fortunes of drug blockbusters sucb as Glaxo's Zantac are anything to go by, sales will fall by half within weeks of that day and by 90 per cent within a year.

Bovine spongiform encephalopatby (BSE), the cattle brain disease known as mad cow disease which is believed can spread to bumans, presents a more immediate problem – gelatine and tallow, both extracted from cattle carcasses, are used in most pbarmaceuticals products.

The US government has said that a proposed European Union ban on gelatine and tallow could block $4.5bn of US exports of pharmaceuticals.

The BSE problem is likely to be dealt with first, by January 1 hopes Mr Taurel, because that is when the ban is scheduled to take effect.

He has been part of a delegation from the industry lobbying the European Commission in Brussels to exempt medicines from the prohibition on tallow and gelatine.

He believes the argument is being won on the following analysis: more people would suffer without their medicines than might contract the variant of Creutzfeld-Jakob disease believed to be related to BSE. ("One in 100bn people" is the figure be quotes experts as having evaluated.)

Prozac'e problems are of a longer-term nature. Lilly's method of dealing with Prozac happens also to be the company's attempt to address what Mr Taurel calls "the central issue of the industry today": how to launch enough new drugs to keep up the growth rate of the 1990s as patents expire after 2000.

According to Andersen Consulting, the top 10 companies will eacb bave to launcb five important new drugs a year, with eacb reaching annual sales of $350m, just to keep pace with the average industry growth rate of 10 per cent a year. But between 1990 and 1994, the industry launched an average of less than one important new drug.

Mr Taurel acknowledges that the leap in research and development productivity demanded will be difficult but argues there are several factors that will belp.

Sidney Taurel: puts his money where his analysis is

- New tools of drug discovery are just beginning to be exploited. They inclnde metbods of prodncing millions of different potential drugs at a time (combinatorial chemistry), a better understanding of the way genes contribute to disease (genomics), and faster ways of matching the potential drugs and genetic causes (high throughput screening).
- The pharmacenticals industry is more prepared to risk developing radically new products rather than marginal improvements on existing ones. This is partly thanks to the example set by biotechnology companies, which are usually set up to exploit the latest advances in biochemistry and biology.
- The sales decline after patent expiry is being countered by efforts to launch more quickly and recruit larger sales forces. Tha effect is already being felt, says Mr Taurel. The company's new schizophrenia drug Zyprexa had sales in its first 12 months of $550m. Prozac's first year brought in $130m.

Mr Taurel is prepared to pnt his money where this analysis leads it. Lilly has one of the widest networks of biotechnology company alliances in the drugs industry: 25 new deals have been signed in the past year alone taking the total to over 100.

Mr Taurel divides these alliances into three categories. The first is core technologies, such as genomics, which get Lilly involved at the sharp end of scientific research. The second is new drugs being researched hy biotech companies in Lilly's medical areas: nervous system, bormonal, infections, heart disease and cancer. The third is drug delivery – better ways for patients to take drugs – by inhalation rather than injection.

Most partners are not promising anything until the next decade, exactly when the company needs Prozac replacements. So for Mr Taurel, the solution to the Prozac prohlem is clear. Eli Lilly, he says, is launching drugs at well above the industry average. "Our figure is a little more than two new launches a year."

That, combined with the alliances strategy means he is confident the long-term sales growth rate will hit 15 per cent a year.

Provided those biotech alliances deliver the goods, of course.

Daniel Green

AMERICAS NEWS DIGEST

Mutual Life to change status

Mutual Life, Canada's fifth largest life assurance group, has announced it would seek policyholder approval to convert to a publicly traded stock company, becoming the country's first insurance firm to pursue demutualisation.

Mutual Life, which has total assets under management of C$42bn (US$29.5bn), said that demutualisation would enhance opportunities to thrive in a rapidly consolidating marketplace. The plan would enable the company to grow through acquisitions, develop new products and services, attract investors and generate greater value.

Canada's other insurance companies are likely to adopt the same strategy to remain competitive, analysts said.

Scott Morrison, Toronto

■ PROCTER & GAMBLE

Buyer found for baking mix unit

Procter & Gamble, the US consumer products group that put its Duncan Hines baking mix business up for sale in August, yesterday said it had found a buyer in MBW Investors, owners of Aurora Foods, of Columbus, Ohio. Duncan Hines has annual sales of about $250m: the sale price was not disclosed.

Aurora Foods was formed last year by Dartford Partnership, a San Francisco investment firm that specialises in the food and drinks businesses; McCown De Leeuw & Co, a private investment firm that specialises in buying and selling middle market companies; and Fenway Partners, a New York investment firm.

Since its inception, Aurora has acquired Mrs Butterworth's syrup and pancake mix from Unilever, the Anglo-Dutch consumer products group, and Log Cabin syrup from Kraft. Following the acquisition of Duncan Hines, Aurora's annual sales will be about $450m.

Richard Tomkins, New York

■ COLOMBIA

Cementos del Caribe expands

Colombia's Cementos del Caribe acquired the Venezuelan cement producer Cementos Monay for 41.8bn bolivars ($83.3m) from the state Fondo de Inversiones de Venezuela (FIV), the privatisation agency. The plant has a production capacity of 540,000 tonnes a year as well as a small port on the eastern shore of Lake Maracaibo.

Cementos del Caribe, the second largest cement maker in Colombia's Sindicato Antioqueno conglomerate, which controls more than a 50 per cent share in the Colombian cement market, said it was seeking further opportunities to expand internationally.

Raymond Colitt, Caracas

■ FINANCIAL SERVICES

US groups agree $2.7bn merger

First American, a Nashville-based financial services provider, said it had entered a definitive agreement to acquire DepositGuaranty, a Mississippi bank, for about $2.7bn. Deposit Guaranty shareholders will receive, in a tax-free exchange, 1.17 shares of First American common stock for each share of Deposit Guaranty common stock. The merger will be accounted for as a pooling-of-interests and is expected to be neutral to earnings in 1998 and 6 per cent accretive to First American's consensus estimate in 1999.

AFX, Jackson, Mississippi

COMPANIES AND FINANCE: UK

Deal could lead to widespread restructuring in Lloyd's investment trust sector

Hiscox may acquire 'spread' trust

By Christopher Adams, Insurance Correspondent

Hiscox, the group which owns one of the biggest managing agencies at Lloyd's of London, may acquire Hiscox Select, a so-called "spread" investment trust using funds to support a range of Lloyd's businesses.

A deal could set in motion a wave of corporate restructuring in the Lloyd's investment trust sector, where shareholders such as George Soros, the US-based hedge fund manager, have been pressing for action to remedy the laggardly performance of share prices.

Soros and Fidelity are among several institutional investors who have built up significant stakes in Lloyd's funds, but whose investments have provided a poor return.

Shares in Hiscox Select rose ½p to 113p yesterday, giving it a market capitalisation of about £34m ($56.8m). Analysts, however, estimate its break-up value at more than £40m.

For Hiscox, the insurance group which created the investment trust but does not have an equity link with it, a deal would give access to extra capital and more control over funds supporting one of the syndicates it manages.

Investment trusts were introduced to Lloyd's three years ago when the insurance market opened its doors to corporate capital, following a sharp fall in the capital supplied by Names, the individuals whose wealth has traditionally backed Lloyd's.

But investors and analysts are concerned about the future of those spread funds which have not developed strong underwriting links.

Some spread funds have merged with underwriting agencies, which manage syndicates, creating nascent insurance companies.

Analysts say the spread funds which remain unaligned could be squeezed out of the market as underwriters try to win control of the capital backing syndicates. Dismal prospects for underwriting profits at Lloyd's over the next two years has further depressed the share prices of the funds.

Yule agrees to take Holliday

By Roger Taylor

Yule Catto, the speciality chemicals group, has agreed a £240m ($400m) bid for rival Holliday Chemical Holdings.

Yule shares fell 32p or some 10 per cent to 274½p yesterday in response to the news, knocking £15m off the offer value. Holliday's shares dipped 8p at 225½p.

It is paying £111m in cash and the remainder in shares, in a deal which will leave the combined group with debts of about £169m and interest cover of between 5 and 6 times.

Analysts were worried by the lack of industrial logic behind the deal. Yule acknowledged that there was no overlap between the two company's products or customers and little or no scope for cost savings or synergies between the two businesses.

Alexander Walker, Yule's chief executive, said he believed his management team could drive higher earnings growth from Holliday's range of businesses.

His company has achieved a 42 per cent increase in earnings per share over the past five years in contrast to Holliday, where earnings last year were below their level of five years ago.

The main attraction of Holliday is its pharmaceutical intermediate business, which has been growing rapidly.

It manufactures the active ingredient used to make the generic version of Zantac, Glaxo Wellcome's blockbuster ulcer drug. The patent on Zantac expired earlier this year producing a surge in sales of generic products. As a result, Holliday's profits are forecast to jump from £10.6m last year to £26m this year.

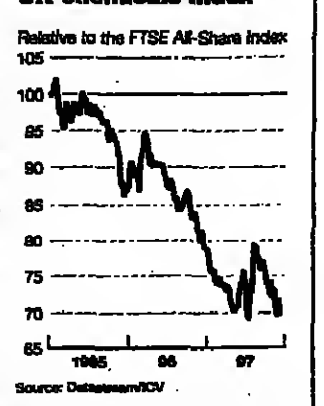
The offer price is a premium of 40 per cent to Holliday's 173½p share price on Tuesday, the day before the company announced it was in talks.

LEX COMMENT

UK chemicals

The 10 per cent-plus drop in Yule Catto's share price that greeted its agreed £240m bid for Holliday Chemical seems churlish. A company with a strong management record is planning to take over one with the reverse. And Yule does not look to be overpaying, with an offer of less than 14 times Holliday's estimated 1997 earnings. While there is negligible overlap, it would be carrying the focus craze to extremes to criticise a company for expanding by acquisition within its own sector. True, it is a big bite for Yule. The deal entails almost a one for two share issue and sends debt up to nearly £170m. But interest cover should be more than five times and earnings should be enhanced from the first year. The dilution of two big shareholders in Yule means that if it fails to reap benefits from the deal, it would itself be easier to take over, limiting the downside.

UK chemicals index



Source: Datastream/ICV

Indeed further bid speculation – sparked by the hostile move for Allied Colloids, as well as this deal – presents the best hope for reigniting investor interest in the sector. Its underperformance has epitomised the malaise that has settled on small to medium-sized UK exporters. The combination of financially strong predators, especially from overseas, and reasonably priced UK-based targets looks a potent recipe.

Both Allied Colloids and Holliday Chemical had question marks over their performance. While Courtaulds would be a bigger bite for any predator, it too looks vulnerable on that basis.

British Midland set to top £15m

By Michael Skapinker, Aerospace Correspondent

British Midland said yesterday that it expected pre-tax profits to rise to more than £15m ($25m) this year, from £6.1m in 1996. The airline said it was suffering no damage from the growth of cut-price carriers.

British Midland, which is 40 per cent owned by Scandinavian Airlines System, said turnover in the 10 months to October 31 was up 16 per cent to £452.2m. Passenger numbers had risen 7.1 per cent to 5.1m, and aircraft occupancy had increased to 70.1 per cent (67.3 per cent).

Sir Michael Bishop, chairman, said £3m of the expected profits rise would come from extra business won because of the strike this summer by British Airways cabin crew. He did not intend to enter the "no frills" market. He had no objection to BA's plans to enter this sector, and would not be joining EasyJet in launching a legal challenge to BA.

The group planned to challenge BA on the Heathrow-Manchester route, with eight daily return flights, beginning in March. Sir Michael said London-Manchester was Europe's largest route served by only one airline.

API warns on current half

By Emiko Terazono

The strong pound, rationalisation and destocking by the tobacco industry would affect profits for the current first half, API said yesterday as it reported a 29 per cent rise in full-year pre-tax profits.

Michael Smith, chief executive, said the packaging and coatings group was managing sterling's strength, while destocking by clients and £880,000 ($1.42bn) rationalisation losses were one-off costs which would disappear in the second half. "The current year is one of two halves," he said.

The strong pound cut £2.6m from pre-tax profits of £14m (£10.8m) for the year to October 4, but growth from new products and a full-year contribution from Learoyd, its security bag manufacturing subsidiary, more than offset the setback. Without the currency effect and start-up losses of £2m from its metallised paper plant, pre-tax profits would have risen by 58 per cent, Mr Smith said.

Sales rose 12 per cent to £144m, while operating margins improved from 8.6 per cent to 9.5 per cent.

Net cash totalled £10.2m. Mr Smith said the group was looking at two to three acquisition opportunities. API yesterday announced the purchase of Labelworld for about £1m. It will be integrated with the Data Label subsidiary and is expected to produce profits of about £400,000 in the current year.

The shares fell 7½p to 582½p.

Robert Whitrow

Michael Smith: looking at acquisition opportunities

George Walker bets on Serbia

By Guy Dinmore in Belgrade

George Walker, declared bankrupt with the collapse of his Brent Walker empire, yesterday came out for a new round in his comeback. The former boxer has signed a $4m deal to open betting shops across the rump Yugoslavia republics of Serbia and Montenegro.

Mr Walker's Cyprus-based Premier Telesport has 51 per cent of Hippo Toto, a joint venture with the Belgrade Hippodrome that plans to install satellite feeds of British horse and dog racing in 250 outlets across rump Yugoslavia over the next 18 months.

Satellite Telesports, Premier's London subsidiary, has the rights to distribute SIS, the broadcasting system used by Britain's bookmakers, in Russia and other former communist bloc countries.

Eight Russians in his Old Street offices in London give a simultaneous translation of racing commentaries and Mr Walker is now seeking a Serbian team.

Mr Walker is convinced his is a winning formula and predicts revenues will meet his running costs within three months.

Serbia's dire economic plight after years of international isolation does not deter him. "There's nowhere in the world that doesn't have a market that will bet on horse racing. People always like to drink, smoke and gamble. They're all vices. We like them and want them."

Business associates said breaking into Yugoslavia took six months of tough negotiations with officials.

Celltech's head of R&D to leave

By Roger Taylor

David Bloxham, head of research and development at Celltech, the biotechnology company, has resigned six months after the shares halved in value when its lead product failed clinical trials.

Peter Fellner, chief executive, said yesterday that Mr Bloxham's departure provided an opportunity for new people and new attitudes to be brought in. He added that the failure of the septic shock product earlier this year had not damaged the underlying business.

Celltech also reported pretax losses of £12.1m ($20.2m) for the year to September, against profits of £3m which included a £12.2m gain on the sale of its Biologics arm. The shares lost 5p to 260p.

Mr Fellner said the company had £36.5m in cash and was expecting a further £10.5m later this year from the Biologics deal. This was more than enough to fund research costs for the next two years.

Mr Bloxham is due to depart in February to become chief executive of Therexsys, another biotechnology group.

Analysts said Celltech's drug pipeline was forecast to start yielding profits by 2000-01.

Virgin Radio sold in £85m deal

By John Gapper

Chris Evans, the radio disc jockey and television presenter, last night struck an £85m ($142m) agreement to buy Virgin Radio and create an enlarged group owned by himself, Richard Branson, head of Virgin, and the venture capital firm Apax Partners. Mr Branson agreed the deal despite earlier having accepted an £87.5m offer from Capital Radio. He said "the maverick in me" had been attracted to Mr Evans' bid, and the disc jockey would be "a more sympathetic partner".

Capital Radio declined to comment on the deal last night, although it is thought to be frustrated that the delay in its offer being approved by the Monopolies and Mergers Commission – which is still considering it – allowed Mr Evans' last-minute move.

The deal gives Mr Evans, a controversial broadcaster, a 55 per cent interest in a media company combining Virgin Radio with his own Ginger Group.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alldars	Yr to Sept 30	490.9	(755.9)	23.1	(40.4♥)	21.7‡	(17.1)	5	Feb 19	3.7	8	6.1#
API	Yr to Oct 4	143.8	(128)	14	(10.8)	36.16	(31.44)	7.17	Feb 9	6.52	12.1	11
Carclo Eng	6 mths to Sept 30	91.7	(74)	8.06	(7.12)	9.4	(8.1)	3.44	Mar 6	3.44	-	10.75
Celltech	Yr to Sept 30	4.3	(13.2)	12L	(3♥)	16.2L	(3.5)	-	-	-	-	-
CRT	6 mths to Oct 31	119.3	(55.5)	6.57♠	(3.37)	3.07†	(2.4)	1.025	June 8	1	-	4.3
Electronic Data	Yr to Sept 30	12.6	(14.3)	1.74	(2.52)	4.5	(6.64)	1.533	Apr 6	1.533	2.2	2.2
Faupel Trading Φ	6 mths to Sept 30	13.4	(11.5)	0.34	(0.212)	1.97	(1.21)	0.8	Feb 11	0.7	-	2.09
Highams Systems	6 mths to Sept 30	11.3	(7.36)	0.647	(0.388)	4.9	(3.3)	-	-	-	-	-
Hunting	Yr to Dec 31	-	(-)	-	(-)	-	(-)	3大	Dec 31	-	-	6
Jarvis	5 mths to Sept 30 ☆	128.3	(119.4)	12.7	(4.41)	10.2†	(5.5)	2.5	Feb 4	1.6	-	5.5ꟸ
Jasmin Φ	6 mths to Sept 30	4	(3.45)	0.279	(0.052)	6.84	(1.29)	-	-	-	-	-
Jordec Φ	Yr to Sept 26 §	27.5	(7.58)	0.506	(0.818L♠)	3.1†	(5.7L)	nil	-	nil	nil	nil
Marston Thompson	6 mths to Sept 27	106.5	(91.4)	15.8	(14.7)	12.71	(13.17)	3	Jan 13	2.7	-	8.03
RMS	6 mths to Sept 30 §§	0.088	(0.012)	2.08L	(0.111L)	7.09L†	(3.37L)	-	-	-	-	-
United Drug	Yr to Sept 30 ꟸ	302	(247.8)	7.32	(6.01)	23.14†	(22.53)	6.9	Feb 12	6.2	9.9	9
Widney	Yr to Sept 27	38.6	(37.9)	0.855♠	(0.776♠)	2.98	(3.11)	2.5	Apr 6	2.5	3.5	3.5
Total Systems	6 mths to Sept 30	2.02	(1.48)	0.476	(0.188)	3.193	(1.329)	0.65	Feb 27	0.5	-	1.25

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ‡On capital adjusted for share consolidation. †On increased capital. #Excludes special. ΦAim stock. 大Foreign income dividend, paid as second interim. ☆Comparatives for nine months to September 30. ꟸFor 15 months. §Comparatives for seven months to September 27. §§Comparatives for 11 months to March 31. ꟸIrish currency.

BUSINESS AND THE LAW

Court upholds trademark rights

EUROPEAN COURT

A trademark owner can rely on its rights to prevent third parties removing, altering and re-affixing or replacing whisky bottle labels bearing its trademark, even if it constitutes a barrier to trade between European Union member states, the European Court of Justice ruled recently.

Ballantine prodnces and markets branded alcoholic drinks, and in particular, whisky. Loendersloot, a Dutch transport and warehousing company, sopplies customers engaged in parallel trading - buying products in countries where the price is low for resale in countries where prices are higher.

Ballantine claimed in the Dutch courts that Loendersloot had removed whisky labels bearing its brand names and reaffixed the original labels or replaced them with copies. It also alleged the Dutch company had removed identification numbers on the labels and removed the word "pure" and the name of tbe importer approved by Ballantine from the original labels and in some cases replaced it with another name. The relabelled bottles were then exported.

A preliminary issue arose in the Netherlands Supreme Court as to the extent to which Ballantine could use its various trademarks to prevent this. Since the issue concerned the free movement of goods within the EU, the matter was referred to the European Court.

The Court noted that the relabelling of bottles had no adverse effect on the original condition of the product. In sucb circumstances the question to be determined was wbether the relabelling was necessary in order to prevent artificial partitioning of the markets between EU countries.

That involved an assessment by tbe national court of the necessity of relabelling as a means of protecting sources of supply of the parallel trader and enabling the products to be marketed in tbe various markets for whicb tbey were intended.

Turning to tbe removal of identification numbers, the Court said there were legitimate instances where European law obliged the manufacturer to be in a position to identify the origin and movement of its products.

The use of the trademark as a means of preventing removal of labels and identification numbers for such purposes was not contrary to European law, the Court said.

Where a manufacturer used the identification numbers as a means of monitoring trade within the EU, parallel traders could seek protection under the EU's competition laws. But in order to safeguard the interests of trademark owners, European law required the person carrying ont the relabelling to give the trademark owner prior notice that the relabelled products were to be put on sale.

The Court ruled that the owner of trademark rights could, even if it constituted a barrier to intra-EU trade, rely on those rights to prevent third parties removing, altering, re-affixing or replacing labels bearing its trademark, unless certain matters were established to the contrary.

Relabelling and marketing by third parties cannot be opposed if the trademark owner is using its rights to oppose the marketing of relabelled products in a manner which would contribute to the artificial partitioning of the markets between member states.

It cannot be opposed if it is shown relabelling cannot affect the original condition of the products, nor if the presentation of the relabelled product is not sucb as to damage the reputation of the trademark and its owner and the person performing tbe relabelling tells tbe trademark owner about the relabelling before the products are put on sale.

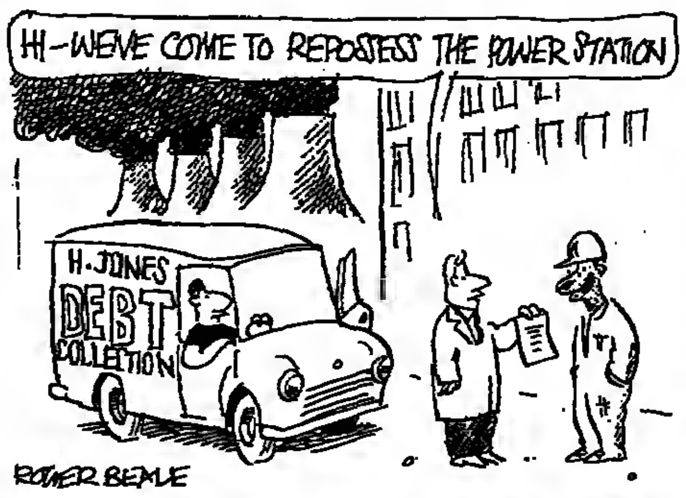
The Court said those were matters for the national court to decide.

C-349/95: Frits Loendersloot v George Ballantine & Son, ECJ FC, November 11 1997.

BRICK COURT CHAMBERS, BRUSSELS

Project pitfalls

Asia's infrastructure programmes could turn nasty, says **Kent Rowey**



There is a tremendous amount of wringing of hands and doomsaying about the Asian economic crisis and the effect it might hava on the ability of Asian governments to service their high levels of external debt.

The concern is understandable, but these gloomy predictions frequently ignore the high levels of external "non-borrowing" liabilities Asian countries bave incurred to support their ambitinus private infrastructure development programmes. The risk of default on these may be as great and the amounts involved are nearly as high.

It is often assumed that the use of financing techniques such as build-own-transfer (BOT) and build-own-operate (BOO) in Asian private infrastructure programmes relieves the host country from the liabilities associated with financing, building and operating infrastructure projects. This is a misconception. The reality is that many of the risks of the project remain with the host government under the support contracts they enter into.

A typical BOT or BOO structure in Asia would involve a local company, primarily owned by foreign investors, entering into a support contract with the host government under which tbe company agrees to finance, build, own and operate an infrastructure project, such as a power station or a toll road, for a specified concession period.

The host government in return agrees in the support contract to pay or guarantee tariffs to the local company sufficient to repay the capital costs of the project. The tariffs are set to provide a reasonable rate of return to the investors and to service the debt borrowed to build the project.

The government gets the benefit of a much needed infrastructure project without having to borrow or spend its own precious foreign currency reserves to build it.

Tbis financing technique, together with the enormous need for infrastructure in the region and the voracious appetite of private capital for new investment opportunities in Asia, has created the financing phenomenon of the decade. Estimates vary, but the total value of private infrastructure investment through BOT or BOO schemes in Asia in 1996 alone is thought to be in the region of $50bn (£29.90bn).

Yet amid the flurry of investment and the search for ever bigger projects in ever more challenging jurisdictions it is often overlooked that, desplte the BOT and BOO arrangement, host governments remain substantially on the hook for these projects.

In fact, three features of the government support contracts for these projects, combined with current account deficits of crisis proportion, could transform the private infrastructure development programmes of some Asian countries into a serious sovereign debt problem.

First, the support contracts between the bost governmant and the project company typically provide that the tariff either will be paid in hard currency (usually US dollars) or that the government will guarantee the dollar eqnivalent amount of local currency payments. Foreign exchange risks are thus allocated to the host government.

Second, the support contract typically will provide for a "termination payment" by the host government in the event it fails to perform any of its obligations, including the obligation to assure availability of foreign currency. The termination payments are reqnired by the project company's lenders, wbo want to ensure sufficient money is available in a lump sum on government default to repay the debt they advance to finance the project. The termination payments are therefore at least sufficient to repay the project company's outstanding debt.

Third, the capital structure of a typical BOT or BOO project includes a lot of debt. In power projects, the debt to equity ratio can be as high as 80:20. High levels of gearing are driven by the economics of these projects. As debt is generally a cheaper form of investment capital than equity, and because these projects are capital-intensive, high levels of debt financing are used to satisfy the competing requirements of governments (low tariffs) and investors (high returns).

For collateral, project lenders will charge all of the assets of the project company, and take a security assignment of the government support contract.

The result of all this is that governments commit themselves to billions of dollars worth of contractual obligations, all due in a lump sum, to protect investors and lenders against foreign exchange risk. Combine this structure with significant current account deficits and the scene becomes reminiscent of the sovereign debt environment of the late 1970s and early 1980s.

This is how a project banker's nightmare starts. Debt-service payments under project loan agreements are not paid because there is not enough foreign currency available from the host government. A default ensues, and project lenders enforce their security assignment of the government support contract and step into the shoes of the project company to enforce the termination payment directly against the host government.

Governments then owe large sums of money to international banks, export credit agencies and multilateral institutions for infrastructure development (which is precisely what the BOT and BOO model was supposed to avoid). The lack of foreign currency that led to the default in the first place means that the government will not be able to make the termination payment. Multiply this situation by the large number of projects in the region and it begins to look like Latin America, *circa* 1979 all over again.

Project lenders could attempt to enforce the termination payment obligation against the host government. But the problem of enforcing termination payments under government support contracts may be more problematical for international lenders than true sovereign-dabt restructuring.

Termination payments under a government support contract are not structured as debt. None of the customary sovereign lending covenants, such as negative pledges and *pari passu* clauses, are included in the contract, so lenders will be uncertain as to the priority their termination payment claims will have *vis-a-vis* true sovereign borrowings.

Moreover, inter-creditor arrangements in these projects are complex, often involving export credit agencies, multilateral institutions and commercial funders all lending to the same project. These lenders have historically approached sovereign debt restructuring differently and could reasonably be expected to approach termination payment work-outs in a similarly diverse fashion. Achieving the necessary level of consensus among these project lenders to approve a restructuring plan may prove difficult.

On the other hand, some of the forums, procedures and terms used in sovereign debt restructuring can be adapted to termination payment work-outs.

It is too early to tell whether the economic problems in Asia will transform the infrastructure finance boom into the project banker's nightmare. But whatever happens, if governments, lenders and investors doing new deals bear in mind that the practical consequence of termination payment default is a sovereign debt restructuring, appropriate contractual protections can be built into the support contract, and the path out of the nightmare is at least well-trodden and predictable.

The author is a partner and head of project finance at Freshfields, the UK international law firm.

LEGAL BRIEFS

Clifford Chance settles Canary Wharf claim

Clifford Chance, the UK-based international law firm, has settled the C$1.8bn (£540m) claim brought against it by four Canadian banks over the restructuring of the Canary Wharf office development in London's Docklands. Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Nova Scotia and National Bank of Canada, sued Clifford Chance over heavy losses incurred in the early 1990s from the collapse of Canary Wharf. They alleged that they lost out in the restructuring as a result of incorrect advice provided by Clifford Chance in a 1989 legal opinion.

New maps

The third edition of Global Law Maps, a book of maps on world financial law, has been published by Philip Wood, an expert in international financial law and head of banking at Allen & Overy, the UK-based international law firm. The maps show the attitude of more than 300 jurisdictions to various topics of significance such as bankruptcy, global security, divided ownership and global netting.

Ashurst hire

Ashurst Morris Crisp, the City law firm, has appointed Jeremy Thnmas as its first legal development partner to manage the firm's legal infrastructure. In addition, be will develop the firm's intranet for desktop delivery of legal knowhow to fee-earners. Pinsent Curtis, the national law firm, has appointed Philip O'Connor as its first national bead of bnsiness development. Mr O'Connor is a former consultant to Boeing, the US aircraft manufacturer.

INTERNATIONAL PEOPLE

Novartis recruits from rival

Basle-based Novartis, the world'a biggest drugs company, has poached Jerry Karabelas, number three at UK-US rival SmithKline Beecham, to head its global pharmaceutical operations. Karabelas, 45, is head of SmithKline's North American operating unit.

He will take over Novartis's biggest division, with responsibility for pbarmaceuticals, consnmer bealth, the generic drug business, and Ciba Vision - which makes contact lenses and other ophthalmic products.

Karabelas, a US citizen, trained as a biochemist at the University of New Hampshire and took a PhD at the Massachusetts College of Pharmacy. He started at SmithKline in 1981, rising through the ranks on the sales and marketing side.

From 1990 to 1993 he was director of marketing for the US pharmaceuticals operation, became president a year later and joined the executive management team in 1995. This year he became an executive vice-president of SmithKline Beecham Pharmaceuticals.

The move appears to be a logical step for Karabelas. His work at SmithKline included beading pharmaceuticals business operations for the world, strategic product development and the worldwide regulatory group. In addition, the chief executive and chief operating officers at SmithKline Beecham are in their early to mid-50s and sbow no signs of retiring.

● SmithKline has named Howard Pien, who currently runs the company's operations in China and Korea, to succeed Karabelas.

Daniel Green, London

Tricky time for Kuok

Kuok Khoon Ean, who succeeds his father, Robert Kuok, as chairman of South China Morning Post (Holdings) at the end of the month, is taking over the helm at a tricky time.

The publishing company's flagship newspaper, the English-language Soutb China Morning Post, is one of the most profitable dailies in the world bot is expected to see advertising revenues dip following the turmoil in Hong Kong's markets. There are also concerns over press freedom following China's resumption of sovereignty over Hong Kong in July.

However the younger Kuok, 42, brings to the board a wealth of experience. He has been a director of SCMP (Holdings) since 1993, when his father - an overseas Chinese tycoon who made his fortune in sugar - bought a controlling interest in the newspaper from Rupert Murdoch's News Corporation.

He is also a director of a number of listed companies in Singapore and the family's native Malaysia, as well as Kerry Holdings in Hong Kong. He holds directorships in the statutory boards of Sentosa Development Corporation, Singapore and the Singapore Trade Development Board.

Louise Lucas, Hong Kong

Giat strengthens top management

Giat industries, the loss-making French state-owned tank and munitions maker, has moved to reinforce its top management team, recruiting from the private sector. Luc Vigneron, 43, director of strategy at Alcatel Alsthom, the telecommunications company, is to take over as managing director. Pierre Colmant, 49, is to be commercial and international affairs director. He is currently commercial director of truck and bus maker Renault VI. Jacques Loppion remains as president.

The company made a FFr2bn loss in 1996 and is set to remain in the red this year. Nonetheless, its success in recruiting two such high-calibre and high-profile individuals from tbe private sector may bolster confidence in its ability to turn its results around. The state expects to pump FFr9bn in capital contribntions into tbe group in 1997 and 1998.

David Owen, Paris

Potila steps down from Finnair

Antti Potila, the long-serving chief executive of Finnair, is planning to retire at the end of next year.

Potila, who has been chief executive of the Finnish flag carrier since 1986, said he had decided to stand down after reaching retirement age at 60.

He was credited with overseeing the partial privatisation of Finnair in 1995. In the first nine months of this year the airline reported sharply increased profits nf Fm572.2m (Fm233.5m). The carrier has not named a successor.

Tim Burt, Stockholm

ON THE MOVE

■ US defence contractor RAYTHEON has appointed three new vice-presidents - David Welp, president of Raytheon TI Systems, formerly the defence arm of Texas Instruments which Raytheon acquired in July; Francis Marchilena, assistant general manager of Raytheon Electronic Systems, and Keith Peden, deputy director of human resources.

■ FORD MOTOR CORP has named James Donaldson president of European operations. Henry Wallace, who resigned as president of Mazda last month, is to be Ford's chief financial officer and vice-president of strategic planning for Europe.

■ John Borthwick is to step down as DERMA SCIENCES president. Richard Mink becomes chief operating officer. Charles Caudell is promoted to executive vice-president for field operations and Stephen Wills becomes vice-president for finance.

■ James Woolf has been recruited from Flow East as chairman of the KOTVA department store, replacing Jan Syka, from the store's former owner KIS Ceske.

■ Auto components group ECHLIN is to appoint Larry McCurdy chairman; he will continue as president and chief executive. Chairman Trevor Jones resumes the vice-chairmanship.

■ Personal computer products distributor TECH DATA has named Gerald Lable president and managing director of European operations. He was previously with software reseller Stream International.

■ Jim O'Donnell is to quit as president and chief executive of HSBC MARKETS and chief executive of HSBC JAMES CAPEL in New York, to become a Catholic priest.

■ ASIA SATELLITE TELECOMMUNICATIONS has announced the resignation of director Richard Goswell. He will be replaced by Cable & Wireless chief executive for Southeast Asia and Pacific Peter Moulson.

■ WOOLWORTH CORPORATION has named Mitchell A. Kosh, 48, to the new position of vice-president, organisation and leadership development.

■ Rakesh Varma has been named chief financial officer for CIGNA HEALTHCARE of California. He was vice-president, finance, for CareAmerica Health Plans.

■ David M. Green has been promoted from executive director of finance for ELI LILLY'S US affiliate to vice-president of global business integration.

■ CLEVELAND-CLIFFS, supplier of iron ore products to the North American steel industry, has named Cynthia B. Bezik chief financial officer and senior vice-president of finance. She replaces John Brinzo.

■ TIG HOLDINGS have announced the appointment of Mary R. Hennessey as president and chief operating officer. She succeeds Don Hutson, who is retiring. Before joining TIG a year ago, Hennessey was president of Am-Re Services.

■ Don Brown has been named director of airlift and tanker flight operations at BOEING in Long Beach, California. Brown spent nine years with McDonnell Douglas as a test pilot.

■ Satisb Nandapurkar has joined BANK OF AMERICA as global product manager for foreign exchange options. Nandapurkar was most recently at Deutsche Morgan Grenfell.

■ DRESDNER KLEINWORT BENSON bas appointed Denis Parisien as Latin American strategist in its equities department in North America. He was formerly vice-president of Latin American research at BT Alex Brown.

■ Dr. Kurt E. Stirnemann, currently chairman of the board at spark-erosion machinery group AGIE CHARMILLES HOLDING, will become chief executive of the Agie Charmilles Group and president of the GEORG FISCHER MANUFACTURING TECHNOLOGY GROUP, succeeding Andre Richoz who is leaving.

■ Franz A. Muller, 43, has been appointed managing director of READER'S DIGEST (Switzerland).

■ Francois Pieri has been appointed managing director of CHRYSLER FRANCE. Pieri, 53, has been sales director of the company since April 1997.

■ Bo Goran Eriksson of the Trade and Industry Ministry has been appointed to the board of IMATRAN VOIMA (IVO).

■ SWEDISH FOERENINGSSPAR-BANKEN has announced that Per Aspegren will take over as head of stock trading at its brokerage arm, SWEDBANK MARKETS. He remains bead of bond and foreign exchange trading.

■ Graham Hardy has resigned as group chief executive and managing director of South African construction and engineering concern MURRAY & ROBERTS HOLDINGS. David Brink has become executive chairman.

■ Belgian-Dutch banking and insurance group FORTIS has appointed Joost Kuiper, chairman of its Dutch merchant bank MEESPIERSON, to chairman of the board of FORTIS NEDERLAND, succeeding Henjo Hielkema.

■ NOMURA SECURITIES has appointed Max Chapman, an American who runs the company's US offices, to head Nomura's European operations as well.

■ FARMERS GROUP, the Los Angeles-based insurance-management and holding company, has elected Martin D. Feinstein, president and chief executive, to the additional position of chairman.

■ CHOICE HOTELS INTERNATIONAL has appointed Bruno Geny as senior vice-president, international. He was previously executive director for European mergers and acquisitions for the Union Bank of Switzerland.

■ Gilbert Jung is to be general manager for the 574-room SHANGRI-LA HOTEL WUHAN in China, which is under construction.

■ AON CORPORATION has appointed Kevann M. Cooke as corporate secretary. Cooke most recently served as special assistant to Cook County Board president John H. Stroger Jr., and as deputy chief of staff.

■ Disney's MIRAMAX FILMS unit has named Richard Sands to the new of chairman of worldwide distribution.

■ Chris Davis has joined the bank RZB-AUSTRIA as executive vice-president, international consumer banking. he was until recently executive vice-president for consumer banking in the Asia-Pacific region for ABN/AMRO bank.

■ Lars Toft has been named managing director of BMG CLASSICS, Europe.

■ Lord Lang, the former UK cabinet minister, has been elected a director of MARSH & MCLENNAN.

■ Belgian airline SABENA has appointed Hugh Fraser, currently Benelux sales manager for British Airways, as executive vice-president for sales.

■ Vikas Nath, head of emerging markets equity strategy for UBS SECURITIES in London, has transferred to New York as bead of Latin American equity strategy and research.

■ ANZ INVESTMENT BANK, the investment banking arm of Australia and New Zealand Banking Group, has appointed four new global project finance managers - J. Grant Hauber, Patrick Tai Ming Tat and Eugene Sullivan in Hong Kong and Axelle A. Grossman in Singapore.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

CURRENCIES AND MONEY

Renewed Korean fall drags down yen

MARKETS REPORT

By Simon Kuper

The South Korean won dropped 10 per cent yesterday after the Halla conglomerate collapsed and traders worried that the International Monetary Fund-brokered $57bn rescue package might fail to solve most of Korea's problems.

It is thought possible that the winner of the country's presidential election, due in nine days, might try to renegotiate details of the IMF package. It is also feared that Korea's short term debts might be larger than previously thought. Yields on benchmark three-year corporate bonds closed at 22.95 per cent, a 16-year high.

The won, which is allowed to rise or fall 10 per cent a day, hit the bottom of its limit, closing at 1,342.4 against the dollar. The Bank of Korea intervened at 1,340 to smooth the move.

The won's slide helped weaken the yen against the dollar. The US currency continued to benefit from Friday's unexpectedly strong payrolls report, which showed the biggest American jobs growth in 21 months.

The merger between UBS and SBC Warburg dented the Swiss franc slightly, as Switzerland's fragile economy was expected to lose well-paid jobs. The two banks are thought to be among the 10 largest in the foreign exchange industry. However, few currency strategists thought the merger would noticeably reduce liquidity in the market. The Swiss franc dropped 1.3 centimes against the dollar to a six-week low of SFr1.453.

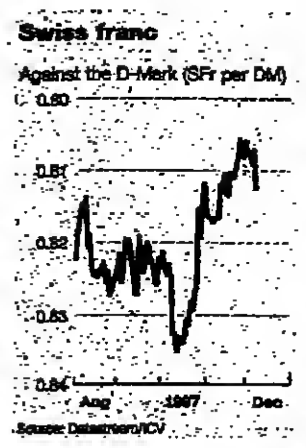
■ **Pound in New York**

Dec 8	Latest	Prev. close
£ spot	1.6480	1.6590
1 mth	[illegible]	[illegible]
3 mth	[illegible]	[illegible]
1 yr	[illegible]	[illegible]

Hans Tietmeyer, Bundesbank president, said inflation and exchange rates were not worrying the Group of 10 central bankers at the moment. The market took this to mean that central banks were not willing to intervene in support of the yen. Various Tokyo officials had recently hinted at intervention. Yesterday Japan's ministry of finance denied that it would sell US Treasury bonds in order to finance a bail-out of Japanese banks.

The D-Mark see-sawed as conflicting rumours emerged about German jobless figures for November, due out today. Early on the currency was hit by a report in the newspaper Die Welt, which said there would be a jump of 75,000 in the unadjusted jobless total. Later, however, rumours emerged saying that any rise would be nearer 10,000, and the D-Mark recovered somewhat.

The dollar rose Y0.5 against the yen and 0.5 pfennigs against the D-Mark to close in London at Y130.6 and DM1.788.



■ The pound continued its slide of the last few days, as November UK producer prices and October industrial production data emerged tame. Sterling fell 0.9 cents against the dollar and 0.7 pfennigs against the D-Mark to $1.648 and DM2.947. Michael Wallace, senior currency economist at S&P's MMS in London, said: "There are some longer term sterling positions that are being unwound."

■ The dollar is now benefitting from the Asian financial crisis, said Hans Gunter Redeker, senior economist at Chase in London. He argued that investors were moving into countries where domestic demand was strong, because Asia's exports were expected to deflate global growth. The payrolls report suggested that the US possesses the strongest domestic demand in the West.

Furthermore, said Mr Redeker, because of the Asian crisis the Federal Reserve was forecast to leave US rates on hold after its open market committee meeting next week. US demand was therefore likely to remain strong, he said.

■ Zhu Rongji, China's vice premier in charge of the economy, said yesterday: "I can solemnly swear that the Chinese renminbi will not be devalued." There has been much debate over whether China will weaken its currency, the renminbi or yuan, now that most of its Asian neighbours have devalued.

■ Tomorrow's bail-out package for Japanese banks could be bigger than expected, reports say. There is talk of the government spending Y10,000bn, mainly to buy stock in financial institutions as a way of improving their capital bases. A package that big could impress the market.

■ **OTHER CURRENCIES**

Dec 8	£	$
Czech Rp	58.0560 - 58.1572	35.2410 - 35.2610
Hungary	332.314 - 332.988	201.720 - 201.770
Iran	4945.20 - 4942.20	3000.00 - 3000.00
Kuwait	0.5021 - 0.5028	0.3046 - 0.3048
Poland	5.8524 - 5.8601	3.5535 - 3.5550
Russia	9749.52 - 9758.88	5916.00 - 5919.00
U.A.E.	6.0505 - 6.0547	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Dec 8	Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe												
Austria (Sch)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium (BFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark (DKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland (FM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France (FFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany (DM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece (Dr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland (I£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy (L)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Luxembourg (LFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands (Fl)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway (NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal (Es)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain (Pta)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden (SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland (SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK (£)	-											[illegible]
Ecu	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
SDR†	[illegible]											
Americas												
Argentina (Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]							
Brazil (R$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]							
Canada (C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico (New Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
USA ($)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific/Middle East/Africa												
Australia (A$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong (HK$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
India (Rs)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]							
Israel (Shk)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]							
Japan (Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia (M$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
New Zealand (NZ$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philippines (Peso)	57.8414	-0.4449	414 - 413	58.4792	57.7414	58.5135	-13.9	59.8231	-14.4	65.517	-13.3	-
Saudi Arabia (SR)	6.1809	-0.0331	786 - 831	6.2216	6.1786	6.1745	1.3	6.1598	1.4	6.0945	1.4	-
Singapore (S$)	2.6624	-0.0159	599 - 648	2.6836	2.6598	2.6654	-1.4	2.6687	-0.7	2.6517	0.4	-
South Africa (R)	8.0228	-0.055	179 - 277	8.0843	8.0178	8.0823	-6.8	8.1799	-7.8	8.5716	-6.8	-
South Korea (Won)	2212.14	+173.4	147 - 281	2226.84	2041.85	-	-	-	-	-	-	-
Taiwan (T$)	52.5755	-0.0611	521 - 988	57.6757	52.5521	52.523	1.2	52.4059	1.3	51.9011	1.3	-
Thailand (Bt)	68.8823	-0.2891	790 - 855	69.2210	67.5640	69.294	-7.2	69.6944	-4.7	71.9927	-4.5	-

† Rates for Dec 5. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 8	Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe												
Austria (Sch)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	102.3
Belgium (BFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	102.1
Denmark (DKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	103.9
Finland (FM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	80.4
France (FFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	105.1
Germany (DM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	102.8
Greece (Dr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	65.5
Ireland (I£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Italy (L)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	75.8
Luxembourg (LFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	102.1
Netherlands (Fl)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	101.3
Norway (NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	98.8
Portugal (Es)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	92.2
Spain (Pta)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	78.7
Sweden (SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	84.8
Switzerland (SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	108.4
UK (£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	104.0
Ecu	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
SDR†	[illegible]											-
Americas												
Argentina (Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]							-
Brazil (R$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]							-
Canada (C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	82.9
Mexico (New Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
USA ($)	-											109.3
Pacific/Middle East/Africa												
Australia (A$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	88.1
Hong Kong (HK$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
India (Rs)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Israel (Shk)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Japan (Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	119.7
Malaysia (M$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
New Zealand (NZ$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Philippines (Peso)	[illegible]	-0.08	500 - 500	35.3000	34.9000	35.583	-13.5	36.495	-13.9	40.3865	-15.1	-
Saudi Arabia (SR)	3.7508	+0.0002	505 - 510	3.7510	3.7505	3.7517	-0.3	3.7536	-0.3	3.759	-0.2	-
Singapore (S$)	1.6158	-0.0009	146 - 186	1.6215	1.6120	1.6196	-3.0	1.6251	-2.4	1.6358	-1.2	-
South Africa (R)	4.8685	-0.007	670 - 700	4.8750	4.8670	4.9138	-11.2	4.9855	-9.6	5.2823	-8.5	-
South Korea (Won)	1342.40	+111.9	240 - 240	1342.40	1300.00	-	-	-	-	-	-	-
Taiwan (T$)	31.9045	+0.1345	000 - 090	31.9000	31.8000	31.8155	-0.4	31.937	-0.4	32.017	-0.4	-
Thailand (Bt)	41.8000	+0.05	500 - 500	41.8500	40.7500	42.095	-8.5	42.42	-5.9	44.55	-6.8	-

† SDR rate per $ for Dec 5. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 5: Base average 1990=100. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

December 8	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3⅝	3⅝	3⅝	3¾	4⅛	6.00	2.75	-
France	3⅜	4⅛	3⅝	3⅞	4⅛	4.60	-	3.30
Germany	3⅜	3⅝	3⅝	3⅞	4⅛	4.50	2.50	3.30
Ireland	6¼	6¼	6⅛	5⅞	5⅝	-	-	6.75
Italy	6⅝	6⅝	6⅛	5¾	5⅝	7.75	6.25	6.02
Netherlands	3⅜	3½	3⅝	3⅞	4⅛	-	2.75	3.30
Switzerland	1	1⅝	1⅝	1¾	1⅞	-	1.00	-
US	5⅝	6½	5⅞	5⅞	5⅞	-	5.00	-
Japan	⅜	1⅛	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅞	5⅞	5⅞	6⅛	-	-	-
US Dollar CDs	-	5.21	5.45	5.56	5.71	-	-	-
ECU Linked Ds	-	4⅜	4¼	4⅝	4⅝	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3⅞	4⅛	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 8	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	4 - 3⅞	4⅛ - 4
Danish Krone	3⅝ - 3½	3⅝ - 3½	3⅞ - 3¾	4⅛ - 3⅞	4⅛ - 4	4⅜ - 4¼
German Mark	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 3⅞
Dutch Guilder	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 3⅞
French Franc	3⅝ - 3½	3⅝ - 3½	4⅛ - 4	4⅛ - 4	3⅞ - 3¾	4⅛ - 3⅞
Portuguese Esc.	5 - 4⅞	5⅛ - 5	5⅛ - 5	5⅛ - 5	4⅞ - 4¾	4⅞ - 4¾
Spanish Peseta	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞	4⅞ - 4¾	4⅞ - 4¾	4⅞ - 4¾
Sterling	7⅛ - 7	7¼ - 7⅛	7⅜ - 7¼	7⅝ - 7½	7⅝ - 7½	7⅝ - 7⅝
Swiss Franc	1 - ½	1⅝ - 1½	1⅝ - 1½	1⅞ - 1¾	1⅞ - 1¾	2⅛ - 1⅞
Canadian Dollar	3⅞ - 3¾	3⅞ - 3¾	4 - 3⅞	4¼ - 4⅛	4½ - 4⅜	4⅞ - 4⅝
US Dollar	5½ - 5⅜	5⅞ - 5⅞	6⅛ - 6	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 6
Italian Lira	6¾ - 5¾	6⅝ - 6½	6⅝ - 6½	6⅛ - 6	5⅞ - 5¾	5⅝ - 5¼
Japanese Yen	⅝ - ½	⅝ - ½	1⅛ - 1	⅝ - ½	⅝ - ½	1⅛ - ⅞
Asian $Sing	6 - 4¾	6¼ - 6	6½ - 6⅛	6⅜ - 6⅛	6¼ - 6	6¼ - 6

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.30	96.30	-	96.30	96.30	6,734	47,726
Mar	96.08	96.07	-	96.09	96.07	3,088	68,933
Jun	95.86	95.85	-	95.87	95.85	1,616	35,096

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.22	96.23	+0.01	96.24	96.22	15759	258788
Mar	96.08	96.09	+0.01	96.09	96.07	34374	330280
Jun	95.88	95.88	+0.01	95.88	95.86	23737	311670
Sep	95.88	95.71	+0.02	95.71	95.68	9859	230398

■ **ONE MONTH EUROMARK FUTURES** (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	96.24	-	-	-	0	6248
Jan	-	96.35	+0.02	-	-	0	600
Feb	-	96.26	+0.02	-	-	0	133
Mar	-	96.16	+0.02	-	-	0	100

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.96	93.96	-	93.97	93.94	2405	100516
Mar	94.73	94.73	+0.01	94.78	94.70	6281	127628
Jun	95.26	95.28	+0.02	95.29	95.25	5611	128534
Sep	95.43	95.44	+0.02	95.45	95.40	2875	78178

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.16	98.14	-0.06	98.17	98.12	7078	54143
Mar	98.14	98.08	-0.08	98.14	98.06	7111	52705
Jun	97.95	97.91	-0.08	97.95	97.89	1761	32217
Sep	97.78	97.75	-0.07	97.79	97.74	1057	16530

■ **THREE MONTH EUROYEN FUTURES** (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.21	99.20	-0.05	99.21	99.21	200	n/a
Mar	-	99.34	-0.04	-	-	0	n/a
Jun	-	99.37	-0.04	-	-	0	n/a

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.46	95.47	+0.01	95.47	95.46	182	8676
Mar	95.42	95.42	+0.01	95.42	95.42	80	7113
Jun	95.38	95.38	+0.01	95.40	95.38	2	8278
Sep	-	95.32	-	-	-	0	8072

* LIFFE futures also traded on APT

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9375	0.22	1.00	1.54	0.01	0.02	0.01
9400	0.03	0.78	1.30	0.07	0.03	0.02
9425	0.01	0.54	1.07	0.30	0.06	0.04

Est. vol. total, Calls 5002 Puts 5404. Previous day's open int., Calls 231497 Puts 142081

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 8	BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium (BFr)	100	18.46	16.22	4.847	1.862	4748	5.463	19.58	494.8	409.4	21.16	3.938	1.645	3.855	2.710	353.9	2.446
Denmark (DKr)	54.18	10	8.789	2.626	1.009	2571	2.959	10.61	268.1	221.8	11.47	2.133	0.891	2.089	1.468	191.7	1.325
France (FFr)	61.64	11.38	10	2.988	1.148	2926	3.367	12.07	305.0	252.4	13.05	2.427	1.014	2.376	1.671	218.1	1.508
Germany (DM)	20.63	3.808	3.347	1	0.384	979.1	1.127	4.040	102.1	84.46	4.366	0.812	0.339	0.795	0.559	73.00	0.505
Ireland (I£)	53.72	9.915	8.714	2.604	1	2549	2.934	10.52	265.8	219.9	11.37	2.115	0.883	2.071	1.456	190.1	1.314
Italy (L)	2.107	0.389	0.342	0.102	0.039	100	0.115	0.413	10.43	8.627	0.446	0.083	0.035	0.081	0.057	7.457	0.052
Netherlands (Fl)	18.31	3.379	2.970	0.887	0.341	868.8	1	3.585	90.58	74.95	3.874	0.721	0.301	0.706	0.496	64.78	0.448
Norway (NKr)	51.08	9.425	8.284	2.475	0.951	2423	2.789	10	252.7	209.1	10.81	2.011	0.840	1.969	1.384	180.7	1.249
Portugal (Es)	20.21	3.731	3.279	0.980	0.376	959.2	1.104	3.958	100	82.74	4.277	0.796	0.332	0.779	0.548	71.52	0.494
Spain (Pta)	24.43	4.509	3.962	1.184	0.455	1159	1.334	4.783	120.9	100	5.169	0.962	0.402	0.942	0.662	86.43	0.597
Sweden (SKr)	47.25	8.722	7.665	2.290	0.880	2242	2.581	9.253	233.8	193.5	10	1.861	0.777	1.822	1.281	167.2	1.156
Switzerland (SFr)	25.40	4.688	4.120	1.231	0.473	1205	1.387	4.973	125.7	104.0	5.375	1	0.418	0.979	0.688	89.87	0.621
UK (£)	60.80	11.22	9.863	2.947	1.132	2885	3.321	11.91	300.8	248.9	12.87	2.394	1	2.344	1.648	215.1	1.487
Canada (C$)	25.94	4.788	4.208	1.257	0.483	1231	1.417	5.080	128.3	106.2	5.490	1.021	0.427	1	0.703	91.79	0.634
USA ($)	36.90	6.810	5.985	1.788	0.687	1751	2.015	7.225	182.6	151.1	7.808	1.453	0.607	1.422	1	130.6	0.902
Japan (Y)	28.26	5.216	4.584	1.378	0.526	1341	1.544	5.534	139.8	115.7	5.981	1.113	0.465	1.089	0.766	100	0.691
Ecu	40.88	7.548	6.633	1.982	0.761	1941	2.234	8.008	202.3	167.4	8.654	1.610	0.673	1.576	1.108	144.7	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10: Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.5610	0.5608	-0.0005	0.5617	0.5589	34,130	72,208
Mar	0.5641	0.5637	-0.0006	0.5644	0.5618	14,505	21,154
Jun	0.5650	0.5650	-0.0020	0.5655	0.5650	68	4,129

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6931	0.6925	-0.0024	0.6934	0.6893	23,902	38,542
Mar	0.7001	0.6997	-0.0023	0.7003	0.6956	4,165	11,696
Jun	0.7056	0.7060	-0.0034	0.7060	0.7058	-	1,293

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7689	0.7660	-0.0029	0.7732	0.7652	30,845	113,806
Mar	0.7777	0.7768	-0.0026	0.7838	0.7756	18,093	28,098
Jun	-	0.7803	-	-	-	13	1,595

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6574	1.6518	-0.0036	1.6578	1.6512	21,445	40,285
Mar	1.6480	1.6442	-0.0042	1.6490	1.6440	8,285	10,489
Jun	-	1.6380	-0.0034	-	1.6380	21	1,256

EMS EUROPEAN CURRENCY UNIT RATES

Dec 8	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.760077	-0.000272	-4.84	7.88	33
Italy	1906.48	1934.96	-1.84	1.49	1.15	-11
Spain	163.826	167.005	+0.071	1.94	0.70	-14
Finland	5.85424	5.97315	+0.00175	2.03	0.62	-14
Portugal	197.398	201.793	-0.015	2.23	0.42	-15
France	6.45863	6.61538	+0.0028	2.43	0.23	-20
Denmark	7.34555	7.52726	+0.00561	2.47	0.18	-17
Austria	13.5485	13.9075	+0.0047	2.65	0.01	-19
Germany	1.92573	1.97667	+0.00107	2.65	0.01	-26
Netherlands	2.16979	2.22743	+0.0012	2.66	0.00	-20
Belgium	39.7161	40.7754	+0.02	2.66	0.00	-19
NON ERM MEMBERS						
Greece	295.269	308.907	-0.124	4.98	-2.19	-
UK	0.793103	0.668925	-0.001567	-15.66	21.72	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.640	1.17	2.13	2.63	0.81	1.81	2.53
1.650	0.66	1.65	2.21	1.11	2.25	3.08
1.660	0.34	1.26	1.81	1.75	2.90	3.67

Previous day's vol., Calls 1,542 Puts 1,372 . Prev. day's open int., Calls 33,269 Puts 28,226

■ **PHILADELPHIA SE D-MARK/$ OPTIONS** DM62,500 ($ per DM)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
0.555	0.70	1.13	1.42	0.08	0.39	0.58
0.560	0.35	0.82	1.12	0.20	0.57	0.79
0.565	0.13	0.57	0.86	0.48	0.83	1.04

Previous day's vol., Calls 1,873 Puts 2,375 . Prev. day's open int., Calls 11,298 Puts 35,788

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.08	94.07	-0.01	94.09	94.06	129,917	393,786
Mar	94.06	94.06	-0.01	94.07	94.05	266,589	477,342
Jun	94.03	94.03	-0.02	94.04	94.02	235,034	372,668

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.89	94.89	-0.02	94.89	94.89	618	4,055
Mar	94.96	94.95	-0.03	94.96	94.95	117	6,323
Jun	94.95	94.95	-	94.96	94.95	14	321

All Open Interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
9600	0.23	0.13	0.15	0.17	0	0.04	0.06	0.08
9625	0.02	0.02	0.04	0.05	0.04	0.16	0.20	0.21
9650	0	0	0.01	0.01	0.27	0.41	0.42	0.42
9675	0	0	0	0	0.52	0.66	0.66	0.66

Est. vol. total, Calls 16937 Puts 14587. Previous day's open int., Calls 417164 Puts 360159

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9825	0.03	0.09	0.09	0.14	0.26	0.43
9850	0.01	0.04	0.03	0.37	0.46	0.62

Est. vol. total, Calls 1250 Puts 0. Previous day's open int., Calls 3350 Puts 3019

UK INTEREST RATES

LONDON MONEY RATES

Dec 8	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7½ - 6½	7⅜ - 7	7⅝ - 7½	7¾ - 7⅝	7⅞ - 7¾	7⅞ - 7¾
Sterling CDs	-	-	7⅜ - 7¼	7⅝ - 7½	7¾ - 7⅝	7¾ - 7⅝
Treasury Bills	-	-	7¼ - 7⅛	7⅜ - 7¼	-	-
Bank Bills	-	-	7¼ - 7⅛	7⅜ - 7¼	7⅜ - 7¼	-
Local authority deps.	7⅛ - 7	7¼ - 7⅛	7⅜ - 7¼	7⅝ - 7½	7¾ - 7⅝	7⅞ - 7¾
Discount Market deps	7¼ - 7⅛	7¼ - 7	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Dec 5. 7.0853pc. ECGD fixed rate Stg. Export Finance. Make up day Nov 28, 1997. Agreed rate for period Dec 24, 1997 to Jan 26, 1998, Scheme III 8.84pc. Reference rate for period Nov 1, 1997 to Nov 28, 1997, Schemes IV & V 7.801pc. Finance House Base Rate 7½pc from Dec 1, 1997

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.29	92.30	+0.01	92.32	92.29	29408	152161
Mar	92.25	92.26	+0.01	92.28	92.24	29852	126894
Jun	92.31	92.35	+0.04	92.36	92.31	11417	106020
Sep	92.42	92.46	+0.04	92.47	92.42	4825	81563
Dec	92.60	92.92	+0.03	92.64	92.60	2274	75801

Also traded on APT. All Open Interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9225	0.06	0.15	0.28	0.01	0.14	0.18
9250	0	0.04	0.14	0.20	0.28	0.29
9275	0	0.01	0.07	0.45	0.50	0.47

Est. vol. total, Calls 541 Puts 825. Previous day's open int., Calls 242585 Puts 236880

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Banking Corp Ltd	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25		
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25		
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

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INTERNATIONAL CAPITAL MARKETS

Economic fundamentals lift Europe

GOVERNMENT BONDS

By Vincent Boland in London and John Labate in New York

European bond markets ended higher yesterday, shrugging off weakness in US debt markets to post modest gains following speculation about another rise in German unemployment last month.

"It was one of those rare occasions when the market was driven by European economic fundamentals," said Phyllis Reed, international bond strategist at BZW.

However, in spite of disappointment that the US market had failed to sustain its brief break below the 6 per cent yield point on the long bond, activity in the Treasuries market was still setting the overall trend for markets, she said.

Trading volumes in the futures markets were light, especially in UK gilts, which recorded one of their quietest days for some time.

GERMAN BUNDS got off to a bright start on indications of the rise in unemployment ahead of official figures due today. German newspapers reported the jobless figure would rise by 75,000, but there were reports after the markets closed that the rise could be about half that.

Earlier, the yield on the 10-year bund had fallen to a new low of 5.36 per cent as bunds led other European markets modestly higher, in spite of the weaker US opening. The March future settled 0.43 higher at 103.93, while the yield spread over US Treasuries widened to 66 basis points.

Analysts said much of the rise in bunds was in long-dated stock rather than at the short end, which is already pricing in a significant Bundesbank tightening. The result was a flattening of the German yield curve.

Laurence Mutkin, strategist at Tokai Bank Europe, noted that the data from Germany was further evidence that the economy would slow down next year. "If the evidence continues to accumulate – as we expect it will – the Euro-DM curve still has considerable scope to flatten," Mr Mutkin said in a commentary.

UK GILTS also moved higher in reaction to bad news elsewhere in the economy, after figures showed a sharper than expected fall in industrial production in October.

This was seen as threatening the UK's fragile manufacturing recovery, with predictions that if domestic orders failed to hold up, there could be more problems ahead for the manufacturing sector.

On a brighter note, the market is now waiting for data due to be released today that will give indications of the progress of inflation for November. This is expected to support the Bank of England's decision last week to leave interest rates unchanged.

However, the December short sterling future continued to discount a quarter-point rise in rates in the first three months of next year, which is broadly in line with what analysts are predicting. The yield curve is also expected to flatten as the peak of the current rate cycle approaches.

The March gilt future settled ⅜ higher at 119⅜, but volume was a slim 33,000 contracts for the session. Traders were at a loss to explain the lack of activity beyond holiday factors. The yield spread over 10-year bunds was unchanged at 122 basis points.

FRENCH BONDS were boosted by what traders said was substantial buying by foreign investors through one Paris house, and rolling over of positions into the March contract from the December, which settled 0.22 higher at 100.76. The March contract settled 0.36 higher at 100.32.

While the Italian and Spanish domestic bond markets were closed for a holiday, there was some trading in futures in London.

The ITALIAN BTP March future moved higher in line with bunds, settling up 0.49 at 114.96, having failed earlier to break through 115. A likely cut in Italian interest rates is the market's next focus, although analysts said BTP prices already reflected the move.

US TREASURIES were mixed at midday, with long-term issues bearing the brunt of speculation that the Japanese might sell some of their US bond holdings.

By early afternoon the benchmark 30-year Treasury bond was down ⅛ to 100⅛, sending the yield up to 6.109 per cent. Shorter-term issues were slightly lower. The 10-year note fell ⅛ to 101⅛, yielding 5.831 per cent while the two-year note was down 1/32 at 99⅞, yielding 5.811 per cent. The Federal Funds rate was at 5¼ per cent.

Weekend reports that the Japanese government has been urged by officials to sell some bonds to support the country's banking system weighed on the markets. However, traders said there were no signs of large-scale Japanese selling.

"If they do something, it will probably be announced on the 10th, when they announce their stimulus package," said Tom O'Connell, senior government trader at First Chicago Capital Markets.

No leading economic data releases are expected until later in the week. On Thursday, new figures on retail sales for November are expected, and on Friday new data on producer prices and business inventories will be released.

French bank raises $53.5m for Arab fund

By Roula Khalaf

Société Générale, the French bank, has raised $53.5m for a close-ended Arab fund to invest in Arab countries, the bank said yesterday.

The fund, launched in October, will be managed by SocGen's emerging markets subsidiary and will invest in equities in Egypt, Lebanon, Jordan, Oman and Bahrain. But investments might also be made in other markets such as Saudi Arabia if they were to open up to foreign investment.

Although the Saudi stock market is the largest in the Arab world, with a capitalisation of more than $50bn, the only way foreign investors can tap it at present is through a country fund run by the Saudi American Bank, which is partially owned by Citibank.

SocGen's Arab fund will invest mainly in listed securities. But a maximum of 40 per cent of funds can also be devoted to unlisted equities, with one objective being to invest in pre-privatisation issues, which can be bought at significant discounts.

The fund's initial life will be five years, with an option to be extended to seven years. It has been sold mainly to Arab investors, who are less sensitive to troubles in the region and more likely to invest in a regional fund that excludes Israel. Tunisia and Morocco, which both allow foreign investment in their stock markets, were also excluded from the fund.

"We did not feel we could add value for our clients in those markets," said Christopher Butterwick, sales manager at Société Générale Emerging Europe Asset Management. "Casablanca has become too expensive, and you can buy Israeli stocks through GDRs [global depositary receipts] listed in New York."

The past two months have been a difficult time to market an Arab fund. In addition to continued turmoil in Asian markets, a crisis broke out between Iraq and the UN threatening Baghdad with US military action. Last month, gunmen killed 69 foreign tourists near the southern Egyptian city of Luxor, in the worst attack on foreigners since Islamist militants launched their campaign against the government in 1992.

Middle-east markets have held up well during the Asian crisis. For example, Jordan is up 12 per cent so far this year, Lebanon more than 20 per cent and Egypt more than 16 per cent.

"The region as a whole demonstrated very low correlation with global markets and with Asian markets. Foreign investors have not yet become significantly involved in these markets and local investors are less influenced by what happens on Wall Street, in Korea or Japan," said Mr Butterwick.

The Cairo stock exchange is still up more than 16 per cent since the beginning of the year but has lost some 2 per cent a week since the November 18 killings.

Political instability in the region has also made foreign investors in GDRs of Arab companies nervous, pushing prices down on average 7 per cent, according to traders.

Surprise 10-year deal from World Bank

INTERNATIONAL BONDS

By Edward Luce

The World Bank took many investors by surprise yesterday with the first 10-year fixed-rate dollar issue since the market crisis in late October.

The $750m offering, priced to yield 20 basis points over 10-year Treasury bonds, was aimed at filling a gap at the longer end of the dollar sector, said a banker at Goldman Sachs, sole lead manager. "This is the sort of deal the market was looking for but not expecting yet," said the official.

The last 10-year fixed bond was in mid-October, when the Inter-American Development Bank came to the market with a $1bn offering. The IDB bond, which was priced to yield 34 basis points over Treasuries, has since tightened to a spread of about 25 basis points.

This, and the fact that the World Bank's 10-year global dollar bond – launched in 1996 – is trading at a spread of about 16 basis points over Treasuries encouraged it to re-open the long-dollar market, said officials.

In addition, the World Bank sought to fill the gap in the retail sector by making yesterday's issue its first bearer offering in some years.

"Eventually a lot of this paper will end up in retail bands," said the official. Much of the demand for the paper – which some criticised as being priced "too aggressively" – came from by Asian investors, including central banks, said officials. They added that most of the paper, which was trading flat to its launch price last night, had been sold by the end of London trading.

Others noted that the transaction was somewhat unusual, in that there was only one lead manager for the deal. "This makes the lead manager much more accountable than otherwise," said one official at a rival bank. "For a sensitive deal like this, it can also help to have just one bank in charge of distribution."

The UBS syndicate desk kept itself busy on what must otherwise have been a rather unsettling day for those at the Swiss bank, as lead manager of a $234m asset-backed offering by HONG KONG MORTGAGE FUNDING.

The issue, backed by mortgages from Bank of East Asia, one of Hong Kong's largest property lenders, was rated higher than Hong Kong's sovereign ceiling. In spite of this, the bond was priced to yield 35 basis points over one-month Libor.

"If this had been a UK issuer it would have come at a spread of around 13 basis points," said an official at UBS. "But it is very difficult at the moment to bring an east Asian credit to the market." Nevertheless, the bonds tightened marginally in secondary trading. The $26m subordinated tranche was priced to yield a spread of 90 basis points over Libor.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
World Bank	750	6.125	99.496R	Dec 2007	0.325R	+20(6¼%Aug07)	Goldman Sachs
HK M'gage Funding No1(a)‡	234	(a1)	100.00R	Dec 2024	0.30R	-	UBS
Cregem Finance(b)§	150	2.75	100.00	Jan 2004	2.50	-	Morgan Stanley DW
FRENCH FRANCS							
Province of Quebec‡	300	(c)	100.00R	Dec 2007	0.10R	-	Société Générale
GUILDERS							
N Waterschapsbank	300	5.50(j)	99.46R	Jan 2008	2.00R	+16(i)	ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Originator: Bank of East Asia. Av. life: 2.9 yrs. 10% clean-up call. a1) 1-mth Libor +35bp to Dec 03, then 1-mth Libor +75bp. a2) Class B: US$26m, av. life: 5.1 yrs, 1-mth Libor +90bp. b) Exchangeable into ING ordinary shares at Fl 109.86. Exchange ratio: 18.3184. FX: Fl 2.0125/US$. Callable from Jan 01 at par. c) 6% to Dec 99, then TEC10 -73bp. i) Over interpolated yield. j) Long 1st coupon

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Dec 8	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	03/99	5.250	101.2422	5.21	+0.03	+0.03	+0.29	-1.26
	10/07	10.000	127.3302	6.20	+0.08	-0.01	+0.24	-1.19
Austria	03/99	7.000	104.1600	4.49	-0.01	+0.01	-0.12	+0.58
	07/07	5.625	101.2200	5.45	-0.05	-0.08	-0.22	-0.41
Belgium	04/99	7.000	103.6000	4.24	-0.03	-0.03	-0.15	+0.82
	03/07	6.250	105.1700	5.52	-0.04	-0.07	-0.21	-0.40
Canada	03/99	4.000	99.1800	4.67	+0.02	+0.21	-0.73	+0.47
	06/07	7.250	111.0000	5.67	+0.03	+0.10	+0.16	-0.19
Denmark	12/99	8.000	102.3900	4.72	-0.01	-0.04	-0.09	+0.48
	11/07	7.000	108.3200	5.67	-0.04	-0.05	-0.26	-0.84
Finland	01/99	11.000	107.1200	4.19	-0.04	-0.09	-0.21	+0.35
	04/06	7.250	111.0770	5.55	-0.04	-0.08	-0.22	-0.74
France	11/99	7.000	104.8100	4.33	+0.01	+0.02	-0.12	+0.78
	10/04	6.750	109.1400	5.13	-0.05	-0.05	-0.21	-0.10
	10/07	5.500	100.8900	5.38	-0.05	-0.08	-0.25	-0.36
	10/25	6.000	101.1300	5.91	-0.05	-0.09	-0.36	-0.78
Germany	05/99	3.500	98.9800	4.20	-0.01	+0.02	-0.09	+0.73
	07/04	6.750	108.5900	5.17	-0.04	-0.06	-0.17	-0.52
	07/07	6.000	104.3500	5.37	-0.05	-0.06	-0.28	-0.46
	07/27	6.500	107.8900	5.92	-0.07	-0.11	-0.30	-0.60
Ireland	04/99	6.250	101.2800	5.19	-0.02	-0.02	-0.31	-0.95
	08/06	8.000	114.8200	5.76	-0.04	-0.07	-0.33	-1.11
Italy	05/00	6.000	102.1100	5.06	-0.01	-0.03	-0.35	-1.51
	05/02	6.250	103.4600	5.36	-0.03	-0.04	-0.33	-1.57
	07/07	6.750	107.0800	5.78	-0.01	-0.05	-0.38	-1.87
	11/26	7.250	113.2000	6.25	-0.03	-0.10	-0.45	-1.25
Japan	06/99	4.800	106.5600	0.43	+0.01	+0.05	-0.02	-0.37
	12/02	4.800	117.2900	1.21	-0.01	-0.05	-	-0.60
	09/05	3.000	109.7300	1.65	-0.01	-0.12	-0.02	-0.85
	03/17	3.000	115.7900	2.47	-0.02	-0.17	-0.05	-0.79
Netherlands	06/99	7.500	104.4800	4.25	-	+0.05	-0.04	+0.84
	02/07	5.750	102.9200	5.34	-0.05	-0.08	-0.24	-0.44
New Zealand	02/00	6.500	98.5567	7.22	+0.08	+0.31	-0.35	+0.13
	11/06	8.000	105.1670	6.69	+0.06	+0.21	-0.26	-0.41
Norway	01/99	9.000	105.0300	4.36	-0.04	-0.06	-0.17	-0.36
	01/07	6.750	108.3000	5.56	-0.03	-0.03	-0.24	-0.87
Portugal	03/99	8.500	104.4223	4.83	-	-0.06	-0.24	-1.34
	02/07	0.625	105.9461	5.77	-	-0.06	-0.29	-1.24
Spain	07/99	7.400	104.1433	4.68	-	-0.01	-0.23	-1.27
	03/07	7.350	111.3912	5.73	-	-0.01	-0.29	-1.21
Sweden	01/99	11.000	106.0250	5.25	-0.03	+0.05	-0.14	+0.26
	05/07	8.000	112.6370	6.19	-0.01	-	-0.19	-0.87
Switzerland	03/99	4.500	102.7500	1.75	-0.04	-0.15	-0.33	-0.46
	06/07	4.500	108.1000	2.48	-0.03	-0.02	-0.16	-0.47
UK	08/99	6.000	99.4375	7.00	-0.03	-0.05	-0.04	-0.37
	11/04	6.750	105.7879	6.61	-0.04	-0.02	-0.08	-0.83
	12/07	7.250	105.0406	6.47	-0.06	-0.03	-0.11	-1.06
	06/21	8.000	110.3594	6.46	-0.06	-	-0.07	-1.26
US	07/99	5.875	100.0630	5.83	+0.04	+0.02	-0.10	-0.13
	08/02	7.250	106.9200	5.84	+0.01	+0.06	-0.03	-0.05
	08/07	6.125	101.3750	5.93	-0.03	-0.08	-0.04	-0.31
	08/27	6.375	102.8200	6.16	-0.03	-0.05	-0.05	-0.43
ECU	03/97	5.000	100.4000	4.62	-0.03	-0.02	-0.13	+0.40
	04/07	5.500	99.9300	5.51	-0.06	-0.09	-0.27	-0.65

London closing. *New York closing. Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents. Source: Interactive Data/FT Information

10 YEAR BENCHMARK SPREADS

Dec 8	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	6.20	+0.83	+0.26	New Zealand	6.69	+1.32	+0.77
Austria	5.45	+0.08	-0.47	Norway	5.56	+0.19	-0.36
Belgium	5.52	+0.15	-0.40	Portugal	5.77	+0.40	-0.15
Canada	5.67	+0.30	-0.25	Spain	5.73	+0.36	-0.19
Denmark	5.67	+0.30	-0.25	Sweden	6.19	+0.82	+0.27
Finland	5.55	+0.18	-0.37	Switzerland	2.48	-2.89	-3.44
France	5.38	+0.01	-0.54	UK	6.47	+1.10	+0.55
Germany	5.37	-	-0.55	US	5.92	+0.55	-
Ireland	5.76	+0.39	-0.16	ECU	5.51	+0.14	-0.41
Italy	5.78	+0.41	-0.14				
Japan	1.65	-3.72	-4.27				
Netherlands	5.34	-0.03	-0.58				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Dec 8	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yield	Mth's chge yield	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	93.3618	8.92	+0.02	+0.64	+3.04
Poland	07/00	7.750	BBB-	102.3379	6.71	-0.03	+0.19	+0.87
Russia	11/01	9.250	BB-	97.3165	10.10	-0.01	+0.17	+4.24
LATIN AMERICA								
Argentina	01/17	11.375	BB	109.7474	10.19	+0.01	-1.43	+4.18
Brazil	11/01	8.875	BB-	100.2500	8.79	-0.04	+0.85	+2.93
Mexico	01/07	6.875	BB	104.8972	9.07	+0.01	-0.65	+3.15
ASIA								
China	07/06	7.750	BBB+	105.6276	6.85	-0.03	-0.45	+0.94
Philippines	10/16	8.750	BB+	93.0466	9.55	-0.04	-0.60	+3.55
Thailand	04/07	7.750	A-	80.5725	9.29	-	-0.86	+3.37
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	101.9580	8.23	+0.26	+0.23	-2.38
South Africa	12/06	9.625	BB+	104.3316	7.27	-0.03	-0.54	+1.47
Turkey	05/02	10.000	B	101.4110	9.80	-0.22	+0.10	+3.72
BRADY BONDS								
Argentina	03/23	5.500	BB	72.7500	8.93	+0.03	+0.70	+2.57
Brazil	04/24	5.250	BB-	71.2528	8.71	-0.02	-1.02	+2.64
Mexico	12/19	6.250	BB	82.5000	7.94	-0.04	-0.49	+1.91
Venezuela	03/20	6.750	B+	86.1300	8.10	+0.01	-0.68	+2.05

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	100.50	100.76	+0.32	100.82	100.48	92,346	77,470
Mar	100.00	100.32	+0.36	100.38	100.00	70,114	60,184
Jun	99.42	99.74	+0.36	99.42	99.42	2	12

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
95	3.96	3.97	4.04	-	0.03	0.11
97	2.96	3.02	3.13	-	0.08	0.19
98	1.97	2.13	2.27	0.01	0.18	0.32
99	1.04	1.33	1.51	0.08	0.37	0.55
100	0.33	0.70	0.90	0.37	0.74	0.93

Est. vol. total, Calls 4,670 Puts 8,227. Previous day's open int., Calls 70,725 Puts 102,463.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	103.53	103.93	+0.46	103.95	103.44	105027	259675
Jun		103.24	+0.46			0	46

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Apr	Puts Jan	Puts Feb	Puts Mar	Puts Apr
10350	0.60	0.69	1.11	1.22	0.17	0.46	0.68	1.48
10400	0.31	0.61	0.83	0.99	0.38	0.68	0.90	1.75
10450	0.12	0.39	0.60	0.80	0.69	0.96	1.17	2.06

Est. vol. total, Calls 8143 Puts 11012. Previous day's open int., Calls 134241 Puts 141955

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	103.96	103.94	-0.09	103.99	103.92	18,624	129,933
Mar	103.47	103.51	+0.05	103.57	103.40	59,718	190,367

■ NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	103.43	103.82	+0.13	103.53	103.42	1405	7,673
Mar		102.94	+0.33				

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	114.50	114.96	+0.49	115.00	114.40	14658	114478
Jun	114.23	114.51	+0.49			0	42

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
11450	1.24	1.47	0.78	1.46
11500	0.97	1.24	1.01	1.73
11550	0.71	1.03	1.25	2.02

Est. vol. total, Calls 51 Puts 1. Previous day's open int., Calls 29009 Puts 30602

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	105.53	105.18	-0.42	105.56	104.91	83,871	88,730
Mar	105.05	104.72	-0.43	105.08	104.55	10,357	21,481

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	119-00	119-07	+0-15	119-07	118-30	3455	34727
Mar	119-14	119-26	+0-15	119-28	119-14	35039	169322

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Apr	Puts Jan	Puts Feb	Puts Mar	Puts Apr
119	1-06	1-38	1-56	0	0-20	0-50	1-04	14-56
120	0-31	1-02	1-18	0	0-43	1-14	1-30	15-56
121	0-11	0-39	0-53	0	1-23	1-51	2-01	18-56

Est. vol. total, Calls 355 Puts 96. Previous day's open int., Calls 44087 Puts 22471

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.64	99.88	+0.34	99.92	99.64	666	8,495
Mar	99.42	99.82	+0.34	99.42	99.42	409	692

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	118-24	118-26	-0-03	119-00	118-21	73,177	132,120
Mar	118-18	118-20	-0-03	118-24	118-14	815,900	535,886
Jun	118-08	118-09	-0-04	118-17	118-06	1,381	17,761

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	130.21	-	-	130.27	130.05	1897	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

US CORPORATE BONDS

Dec 5	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	103.8641	6.31	+0.08	+0.03	+0.45
NY Tel	08/25	7.00	A+	97.6358	7.19	+0.04	-	+1.11
CWE	05/08	8.00	BBB	108.2224	6.88	+0.07	-	+0.88
FINANCIAL								
GECC	05/07	8.75	AAA	115.8761	6.47	+0.07	+0.01	+0.57
Banc One	08/02	7.25	A+	105.4508	6.37	+0.08	+0.05	+0.51
US West	01/07	7.30	BBB+	102.2898	6.95	+0.07	-0.03	+1.05
INDUSTRIALS								
WMX Tech	04/99	6.25	A-	99.8936	6.48	-0.08	+0.16	+0.71
Wal Mart	05/02	6.75	AA	101.7974	6.27	-0.06	-0.02	+0.43
Dayton Hud	06/21	8.70	BBB+	129.3957	7.18	+0.05	-0.11	+1.10
AGENCIES								
FHLMC	04/07	7.14	N/A	105.5374	6.20	+0.07	-	+0.30
SLMA	03/00	7.50	N/A	103.2365	5.93	+0.07	+0.07	+0.12
FNMA	02/18	8.95	N/A	127.5811	6.43	+0.05	-0.12	+0.40
FFCB	06/08	8.65	N/A	117.6702	6.20	+0.06	-	+0.30
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.0000	0.00	-	-	-
AK Stl	12/01	8.13	BB-	103.6250	0.00	-	-	-
Pacelia	06/04	10.75	B-	98.7500	0.00	-	-	-

New York closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	5.81
Broker loan rate	8½	Two month	-	Three year	5.84
Fed funds	5½	Three month	5.32	Five year	5.86
Fed funds at intervention	-	Six month	5.48	10-year	5.92
		One year	5.49	30-year	6.10

INTERNATIONAL BONDS

Dec 8	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	102.1500	5.44	-0.04	-0.27	+0.07
Spain	01/07	5.750	AA	101.5300	5.53	-0.04	-0.25	+0.18
Philip Morris	03/04	5.375	A	98.9000	5.58	-0.04	-0.11	+0.41
ABN AMRO FRN	03/05	3.825	n/a	99.8405	5.40	-0.04	-0.20	+0.12
[illegible]								
Austria	01/04	5.500	AAA	101.8900	5.16	-0.02	-0.21	+0.05
Abbey Nat	02/04	6.000	AA	103.5700	5.30	-0.02	-0.18	+0.17
Cred Foncier	02/04	9.125	A	118.0700	5.59	-0.03	-0.18	+0.46
Abbey Nat FRN	09/06	4.510	n/a	100.0121	4.23	-0.05	-0.24	-1.08
EURO LIRA								
EIB	02/07	7.000	AAA	108.4200	5.65	-0.01	-0.40	-0.13
Abbey Nat	02/02	6.800	AA	105.0000	5.43	-0.02	-0.34	+0.07
Walt Disney	06/00	6.625	n/a	107.3500	5.41	-0.04	-0.42	+0.35
Abbey Nat FRN	03/07	8.000	n/a	104.1333	5.33	-0.04	-0.37	+1.65
EURO £								
EIB	12/07	7.625	AAA	106.2021	6.75	-0.06	-0.15	+0.28
Dresdner Bk	12/07	7.750	AA	103.6560	7.23	-0.06	-0.08	+0.76
RBS	01/07	8.375	A+	108.3440	7.39	-0.03	-0.05	+0.92
Abbey Nat FRN	02/02	7.830	AAA	100.0321	6.71	-0.04	-0.07	-0.01
EURO FFr								
EIB	04/07	7.250	AAA	107.0987	6.22	-0.06	-0.14	+0.30
ABN Amro	08/07	7.125	AA-	104.0234	6.55	-0.05	-0.10	+0.88
Quebec	01/07	7.000	A+	102.9770	6.56	-0.05	-0.10	+0.64
Citicorp FRN	02/04	6.938	AA	99.4700	6.04	-0.01	-0.19	+0.14
EURO C$								
Bayer L-Bk	08/04	9.600	AAA	119.3873	5.89	-0.01	-0.15	+0.14
Toronto	05/04	8.500	AA	114.1478	5.80	-0.08	-0.20	+0.03
Bell Canada	07/06	10.625	A+	107.8116	5.34	-0.02	-0.44	+0.17
Deutsche B FRN	09/02	5.875	AA	101.4242	5.53	-0.10	-0.18	-0.08
EURO YEN								
World Bank	03/02	5.250	AAA	117.5500	1.04	-0.01	-0.05	+0.01
Spain	03/02	5.750	AA	119.4500	1.08	-0.01	-0.07	+0.05
Cred Foncier	08/02	4.750	A	114.4200	1.52	-0.02	-0.03	+0.48
Italy FRN	07/98	0.594	AA	100.3759	0.26	-0.03	-0.02	-0.19

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

Price indices UK Gilts	Mon Dec 8	Day's change %	Fri Dec 5	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	118.99	0.09	118.89	1.73	10.39
2 5-15 years (20)	156.65	0.34	156.12	1.71	11.88
3 Over 15 years (4)	188.45	0.69	187.15	1.09	14.12
4 Irredeemables (4)	229.86	1.03	227.63	1.50	14.48
5 All stocks (47)	148.71	0.32	148.23	1.69	11.88
Index-linked					
6 Up to 5 years (2)	211.58	0.07	211.43	1.14	6.08
7 Over 5 years (10)	215.39	0.27	215.00	1.53	5.76
8 All stocks (12)	214.09	0.26	213.54	1.49	5.76

Yield indices	Low coupon Dec 8	Dec 5	Yr. ago	Medium coupon Dec 8	Dec 5	Yr. ago	High coupon Dec 8	Dec 5	Yr. ago
5 yrs	6.67	6.66	7.22	6.76	6.80	7.29	6.80	6.83	7.33
15 yrs	6.46	6.56	7.74	6.46	6.52	7.71	6.54	6.60	7.68
20 yrs	6.46	6.56	7.82	6.43	6.49	7.74	6.53	6.60	7.70
Irred.†	6.33	6.60	7.90						

	Inflation 5% Dec 8	Dec 5	Yr. ago	Inflation 10% Dec 8	Dec 5	Yr. ago
Up to 5 yrs	3.16	3.21	3.24	2.49	2.51	2.59
Over 5 yrs	3.10	3.12	3.56	2.90	2.92	3.36

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Dec 8	Dec 5	Dec 4	Dec 3	Dec 2	Yr ago	High*	Low*
Govt. Secs. (UK)	100.39	99.85	100.48	100.28	100.57	94.15	101.83	93.31
Fixed Interest	132.25	132.00	132.37	132.57	132.80	117.05	133.54	115.32

 * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)						
[illegible]						
Five to Fifteen Years						
[illegible]						
Over Fifteen Years						
[illegible]						
Undated						
[illegible]						
Index-Linked						
[illegible]						
Other Fixed Interest						
[illegible]						

Prospective real redemption rate on projected inflation of (1) 5% and (2) 3%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for March 1997: 155.4 and for October 1997: 159.5.

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. ◆ Indicative price.

هكذا من الاصل

Announcing the formation of Fitch IBCA, The International Rating Agency.

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COMMODITIES AND AGRICULTURE

Ukraine set to privatise grain sector

By Charles Clover in Kiev

Ukraine is on track to privatise grain storage and distribution by the end of the year, according to the chairman of the conglomerate that controls the system.

Once known as the bread-basket of Europe, Ukraine last year produced 36m tons of grain, and could produce far more then that. One hundred grain storage and processing enterprises are due to be sold – the first step in reforming the country's grain industry.

Khlib Ukrajyny – literally Bread of Ukraine – the state-owned conglomerate that controls storage and distribution of grain in Ukraine, is supposed to be broken up. In the first wave of privatisations, 100 of the 550 odd enterprises are due to be sold.

None of the units have yet been put on the market, and many observers believe the target date is optimistic. No preparations have been made to sell them other than passing a law.

However, there is optimism that the privatisations will begin soon, if only because the finances of the Ukrainian government are in such poor shape that the sell-off programme has become its one hope of staying solvent.

Girgory Omelyanenko, chairman of Khlib Ukrajyny, insisted that the planned privatisations would take place before the new year. And he said that by December 1998, some 343 additional enterprises would be sold.

The law on agricultural privatisation states that 51 per cent stakes in the enterprises will be granted to farmers. Storage and distribution of Ukrainian grain is currently very expensive, due to the monopolistic power of the sector. The government believes granting farmers control over downstream activities will help streamline agriculture and stimulate production.

Mr Omelyanenko said that up to one-third of the shares in privatised Khlib Ukrajyny enterprises would then be sold for cash to both domestic and foreign investors to generate much-needed funds. The remaining stake of between 15 per cent and 20 per cent would stay with employees and 100 enterprises would remain with Khlib Ukrajyny.

Some observers fear that farmers and foreign investors will not be given a fair chance to acquire shares in the agricultural sector. In the past, when agricultural industries have been privatised, their shares have wound up in the hands of regional authorities and managers of the enterprises.

They also point out that the current agricultural privatisation law is a copy of the Russian law which also allowed for farmers and foreign investors to acquire stakes in the storage and distribution industries. In practice, however, this has not happened in Russia, and the industries remain controlled by cartels.

Sharp fall in three-month tin prices

MARKETS REPORT

By Kenneth Gooding and Robert Corzine

Three-month tin fell 1.6 per cent, or $90 a tonne, from Friday's level to close at $5,550 on the London Metal Exchange. Nevertheless, the squeeze in the market remained and the premium for immediate delivery, compared with three-month tin, was $165 a tonne.

Dealers suggested tin's tumble was caused by speculators taking profits when trading volumes were thin, while trade buying appeared when the price reached $5,540 to $5,560 a tonne.

Nickel bucked the trend in the rest of the base metals markets by closing up $5 at $6,040 a tonne after the three-month price dropped below $6,000 in early trading.

Nickel prices have fallen by about $700 a tonne in the past year and Robin Bhar, analyst at Brandeis (Brokers), the Pechiney subsidiary, told a conference in Kalgoorlie, Western Australia, he now expected a surplus of 14,000 tonnes this year, instead of a 4,000 tonnes deficit, followed by a 10,000 tonnes surplus next year as economic growth in Asia slowed and demand for stainless steel, the main user of nickel, dropped.

Gold started the day in London slightly higher but weakened in the afternoon under pressure from a stronger US dollar. It closed in London down 20 cents at $288.20 an ounce. Traders suggested there might be a rally towards the year-end as those who had sold short covered their positions.

The International Energy Agency yesterday warned of a potential oil glut next year, with world production outstripping demand.

In its latest monthly report the IEA, which monitors world energy markets on behalf of the mainly western industrialised countries, said: "The tone of the world oil markets has shifted to concerns about a potentially glutted market."

The IEA believes demand will remain robust, with consumption rising by 1.8m barrels a day next year to 75.6m b/d. That, however, is less than the 2.1m b/d rise estimated for this year.

But the IEA's most contentious conclusion is likely to be its assessment of production in countries outside the Organisation of Petroleum Exporting Countries.

The IEA has pencilled in a rise for non-Opec next year of 1.9m b/d, a much higher figure than that calculated by many industry analysts. The agency expects an extra 600,000 b/d from Europe, 500,000 b/d from Latin America and 300,000 b/d from the former Soviet Union.

If the IEA assessment is correct, then there will be little room for Opec – which last month raised its production ceiling by 10 per cent – to boost output.

One of the main arguments used by Saudi Arabia in pressing for a higher ceiling at Opec's recent meeting in Jakarta was that non-Opec output was likely to remain constrained next year.

Publication of the IEA report helped damp oil futures markets. In London, Brent Blend for January delivery was quoted at about $18.25 a barrel in late trading on the International Petroleum Exchange, 12 cents higher than Friday's close.

On the New York Mercantile Exchange, the contract for January light at midday was trading flat at $18.71 a barrel.

Asia crisis sparks paper fears

By Alison Maitland

The financial turbulence in south-east Asia is raising serious questions about future demand for paper in the region and the possible diversion of paper to the world market, the industry was warned yesterday.

The economic crisis was the last thing the pulp and paper industry needed in the midst of volatile prices and a struggle for profitability, David Clark, former managing director of the Confederation of European Paper Industries, told a London conference.

"As it faces the multiple challenge of volatility, profitability, external credibility, globalisation and new players, the last thing the industry needs is a period of financial turbulence and economic slowdown," he told the Financial Times World Pulp and Paper Conference.

Mr Clark said that 1997 was meant to be a year of solid but realistic recovery after the boom of 1995 and the bust of 1996, which brought plummeting prices and high inventories.

"Instead it has been another volatile year with large quarterly variations in inventories and operating rates due to speculation about future price changes," he said. "Many price increases have been announced but few have been implemented."

Another feature was the upsurge in mergers and takeovers and the emphasis on global rather than just regional concentration, he said. Of the leading 12 paper companies in Europe in 1981, only two remained.

Combined with the boom and bust cycle, the build-up of new capacity has been a persistent thorn in the side of the industry.

Mr Clark said global printing and writing paper capacity was being increased from 90m tonnes to 102m tonnes over the next two to three years, with the greatest build-up in Europe and south-east Asia.

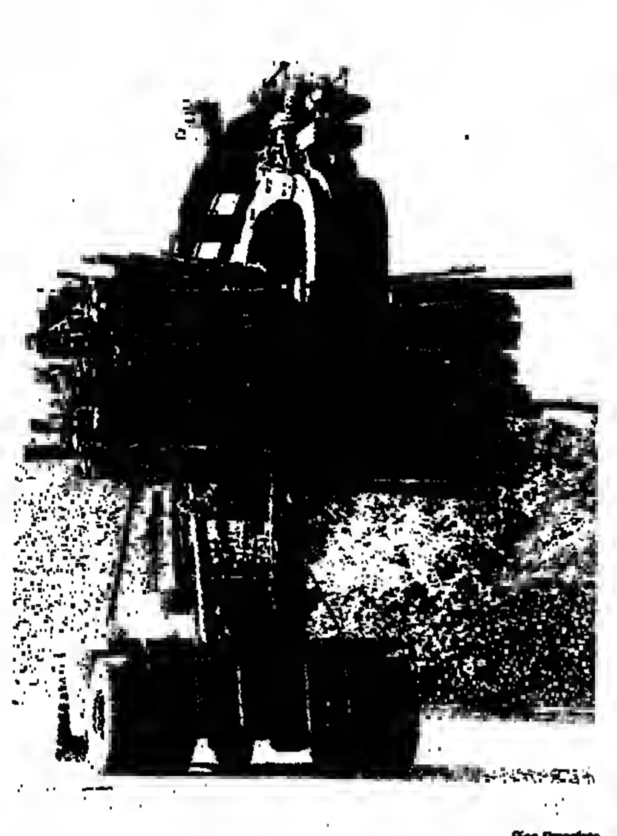
In spite of an increase in consumption of most grades of paper, the industry had so far failed to achieve stable operating rates, he said.

"Even more serious has been the industry's inability to return a satisfactory profit to shareholders, who have become more sophisticated, more global and more demanding," he said.

Magnus Diesen, senior vice-president for corporate planning at Enso, the Finnish group, said managements were taking shareholder value more seriously.

"The consequence of this will be less new capacity and increased merger and acquisition activity, which will lead to a more consolidated and thus better structured industry worldwide," he said.

A parallel change in the industry was the emergence of global leaders such as International Paper of the US and UPM-Kymmene, Europe's largest forestry group, which he said would improve stability.



Pica Pressfoto

Pick-up: markets turmoil raises worries about demand

Japan planning forest expansion

By Alison Maitland

Japan's pulp and paper industry aims to expand its overseas forest plantations from 93,000 hectares last year to 550,000 hectares by the end of 2010, the head of the country's largest producer told the conference.

Masahiko Ohkuni, president of Oji Paper, said the supply of wood fibre from natural forests could be partly substituted with waste paper, with Japan already a bigger user than Europe and the US. The Japanese industry has set a target for waste paper use of 56 per cent in 2000, up from 53.6 per cent now.

However, Mr Ohkuni said it was also essential to mix in virgin fibre to a deterioration in paper quality.

He said greater use of waste paper was "extremely important" in securing the raw materials needed to meet increasing demand for paper.

Japanese demand for paper and paperboard was still expected to grow steadily and demand from China and south-east Asia would increase as those economies developed.

To cope with this, Japan had been systematically shifting from softwood to hardwood, from roundwood to woodchips and from domestic pulpwood to imported pulpwood, he said.

In the face of environmental concerns, Mr Ohkuni said the industry could be "sustainable" throughout the 21st century. He said environmental concerns were the focus of worldwide attention.

"If you can manage the total system well and correctly, you can not only maintain these resources by preserving their biological variety, but also make a significant contribution to the global environmental issues which mankind is now addressing through forest plantation programmes."

Oji plans to increase its own overseas plantations from 51,000 to 200,000 hectares by 2010.

The company already has plantations in Papua New Guinea, New Zealand, Australia and Vietnam.

Current species being used are fast-growing eucalyptus and acacia hardwoods, and radiata pine in softwood. The hardwoods can be harvested in seven to 10 years. Japanese forestry researchers are using genetic engineering to develop even faster-growing species of trees, he said.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1548.5-49.5	1568.5-69
Previous	1554.5-55.5	1577-78
High/low		1572/1562
AM Official	1542-43	1565-65.5
Kerb close		1570-72
Open int.	258,195	
Total daily turnover	94,706	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1417-22	1437-40
Previous	1420-30	1440-45
High/low		1440/1425
AM Official	1407-12	1430-32
Kerb close		1435-40
Open int.	5,915	
Total daily turnover	1,623	

■ LEAD ($ per tonne)

Close	514.5-5.5	532-2.5
Previous	525.5-6.5	542-43
High/low		534/528
AM Official	509-10	526-27
Kerb close		534-5
Open int.	32,488	
Total daily turnover	9,914	

■ NICKEL ($ per tonne)

Close	5935-45	6030-35
Previous	5965-75	6050-60
High/low		6040/5970
AM Official	5900-10	5995-6000
Kerb close		6040-50
Open int.	61,184	
Total daily turnover	17,351	

■ TIN ($ per tonne)

Close	5730-40	5570-75
Previous	5810-20	5650-60
High/low		5640/5540
AM Official	5790-95	5630-35
Kerb close		5550-55
Open int.	14,869	
Total daily turnover	3,805	

■ ZINC, special high grade ($ per tonne)

Close	1093-94	1117-18
Previous	1112-13	1135-36
High/low		1125/1118
AM Official	1091-92	1118-18.5
Kerb close		1118-19
Open int.	83,625	
Total daily turnover	27,807	

■ COPPER, grade A ($ per tonne)

Close	1768-70	1799-801
Previous	1799.5-00.5	1829-30
High/low		1804/1783
AM Official	1788-89	1799-800
Kerb close		1803-04
Open int.	162,269	
Total daily turnover	43,568	

■ LME AM Official £/$ rate: 1.6522
LME Closing £/$ rate: 1.6485

Spot: 1.6475 3 mths: 1.6406 6 mths: 1.6350 9 mths: 1.6283

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	80.85	+1.25	81.40	79.60	1,441	2,071
Jan	81.50	+1.30	81.50	80.55	460	2,792
Feb	82.15	+1.35	82.20	81.75	39	1,767
Mar	82.55	+1.35	82.95	80.80	5,038	32,836
Apr	83.05	+1.35	83.05	82.60	27	1,450
May	83.40	+1.30	83.90	82.50	233	4,719
Total					7,811	84,733

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	287.60-288.10		
Opening	288.20-288.60		
Morning fix	288.10	174.11	417.37
Afternoon fix	287.50	174.24	416.44
Day's High	288.90-289.30		
Day's Low	287.10-287.50		
Previous close	287.80-288.30		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.19 6 months 4.16
2 months ....4.16 12 months 4.16
3 months 4.16

Silver Fix	p/troy oz.	US cts equiv.
Spot	328.40	543.00
3 months	330.80	544.70
6 months	332.85	545.75
1 year	337.10	548.60

Gold Coins	$ price	£ equiv.
Krugerrand	290.5-292.5	176-177
Maple Leaf		
New Sovereign	70-73	42-44

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	287.9	-0.5	288.8	287.5	263	978
Jan	288.7	-0.5	-	-	2	0
Feb	290.0	-0.5	291.5	288.4	22,477	[illegible]
Apr	291.8	-0.5	293.8	291.4	3,047	11,874
Jun	293.9	-0.5	294.9	293.4	2,285	11,510
Aug	296.0	-0.5	296.5	296.1	19	4,599
Total					[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	376.7	-4.3	380.9	376.0	872	10,806
Apr	373.2	-4.3	377.0	373.0	275	2,870
Jul	370.2	-4.3	374.0	373.0	4	116
Total					[illegible]	[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	208.50	-0.15	211.00	207.75	87	349
Mar	206.50	-0.65	207.50	206.25	253	3,832
Jun	203.00	-0.65	203.00	203.00	82	230
Sep	202.00	-0.65	202.00	202.00	4	5
Total					[illegible]	[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	533.5	-3.0	538.5	532.8	338	1,147
Jan	535.3	-3.1	-	-	4	36
Mar	539.5	-3.2	546.0	536.5	17,888	65,776
May	541.8	-3.6	546.8	538.5	981	6,293
Jul	541.8	-4.0	547.0	539.0	1,075	3,225
Sep	542.9	-4.6	-	-	10	807
Total					[illegible]	[illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels; $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ NATURAL GAS IPE (10,000 therms; pence per therm)

Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

■ BARLEY LIFFE (100 tonnes; £ per tonne)

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

■ SOYABEAN MEAL CBT (100 tons; $/ton)

■ POTATOES LIFFE (20 tonnes; £ per tonne)

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Close	Prev
BFI	1211	1200

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

■ COCOA CSCE (10 tonnes; $/tonnes)

■ COCOA (ICCO) (SDR's/tonne)

■ COFFEE LIFFE (5 tonnes; $/tonne)

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

■ COFFEE (ICO) (US cents/pound)

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

■ COTTON NYCE (50,000lbs; cents/lbs)

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

FUTURES DATA

All futures data supplied by CMS.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

■ LEAN HOGS CME (40,000lbs; cents/lbs)

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Aug	52.250	-2.400	54.500	52.250	3	64
Total					1,409	9,160

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1550	32	67	21	41
1575	20	54	34	53
1600	12	43	51	66
■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
1750	65	111	26	49
1800	38	83	49	71
1850	20	61	80	97
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1750	34	96	36	165
1800	17	73	69	203
1850	8	57	111	244
■ COCOA LIFFE	Mar	May	Mar	May
1025	65	94	22	33
1050	50	79	32	43
1075	39	65	46	54
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1800	-	-	11	41
1850	15	45	38	-
1900	2	29	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$17.18-7.20	-0.06
Brent Blend (dated)	$17.77-7.80	-0.11
Brent Blend (Jan)	$18.22-8.25	-0.01
W.T.I.	$18.81-8.83w	-0.02
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$190-192	+3
Gas Oil	$168-170	
Heavy Fuel Oil	$90-92	
Naphtha	$179-180	+1
Jet fuel	$188-189	
Diesel	$180-182	+1
■ NATURAL GAS (Pence/therm)		
Bacton (Jan)	17.20-17.30	-0.38

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER		
Gold (per troy oz)♣	$287.85	-0.20
Silver (per troy oz)♣	543.00c	+12.00
Platinum (per troy oz.)	$380.50	-3.00
Palladium (per troy oz.)	$208.00	+1.00
Copper	85.0c	-4.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.60r	+0.47
Tin (New York)	271.5	-2.0
Cattle (live weight)	93.91p	+6.44*
Sheep (live weight)	98.10p	-2.72*
Pigs (live weight)†	60.38p	-2.13*
Lon. day sugar (raw)	$297.60	+1.30
Lon. day sugar (wte)	$301.70	+1.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Dec)♥	54.50p	
Rubber (Jan)♥	54.50p	
Rubber (KL RSS No1)	270.0z	-1.0
Coconut Oil (Phil)§	590.0y	-25.0
Palm Oil (Malay.)§	517.5	-27.5
Copra (Phil)§	$400.0	
Soyabeans (US)	184.0	+2.0
Cotton Outlook'A' Index	74.95c	
Wooltops (64s Super)	390p	

$ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan/Feb. w Jan. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on n/a head of pigs sold.

INDICES

■ Reuters (Base: 18/9/31 = 100)

■ CRB Futures (Base: 1967 = 100)

■ GSCI Spot (Base: 1970 = 100)

■ LME WAREHOUSE STOCKS (tonnes)

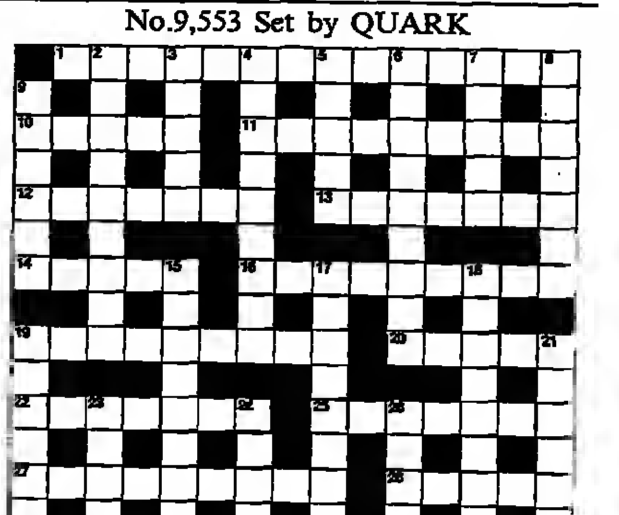
Aluminium	-3,050	to	653,425
Aluminium alloy	-200	to	42,840
Copper	-225	to	345,025
Lead	-125	to	115,975
Nickel	+228	to	66,348
Zinc	-1,450	to	494,300
Tin	-50	to	8,260

Tea from The Tea Brokers' Association. There was good demand for tea. Landed: Colouty better liquoring Assams ruled firm to dearer, but poorer types lost ground. East Africans sold well at around last levels, while Ceylons were a strong feature at substantially dearer rates. Offshores: Brighter Zimbabwe teas appreciated while colouty types were about steady. Quotations for this sale: Landed: best available 165p; good 165p; good medium 158p; medium 147p; low medium NQ. The highest price realised this week was 195p for a Burundi PF1.

JOTTER PAD

CROSSWORD

No.9,553 Set by QUARK



ACROSS

1 Play recalled from the balcony? (5,3,6)
10 Assistant returns to the writer for TV etc (5)
11 He can bandle the hard stuff (9)
12 Any line set out in a silly way (7)
13 Description of trousers? This rep could give it (7)
14 Swallowed up, being defeated without the leader (5)
16 Inflame miss with piano playing (9)
19 Representation of a narrow beam in the gate (9)
20 Make concessions in action to postpone (5)
22 Tangible form of lattice (7)
25 Officer in the blue, but could be red or white (7)
27 Object about the face being pictured (9)
28 Standard weapon by the sound of it (5)
29 Game birds (5,3,6)

DOWN

2 Artist once part of a certain school (3,6)
3 Delete the periods on English (5)
4 Innominate state (9)
5 Get rid of depression (5)
6 One should get in if one's this (9)
7 Unsuitable paint being applied (5)
8 Moving near the capital (7)
9 One thousand books including one bit of Euclid to take in! (6)
15 The flower of youth (9)
17 Cut up embellished tree could be (9)
18 Conclusion of fine centre having lost time in rebuilding (9)
19 Top of the underground system? (7)
21 Yield to compassion about time for fasting (6)
23 Relating to a city both up and down (5)
24 Nigel works in northern city (5)
26 A short time before church, gets a coffee (5)

Solution to Saturday's prize puzzle on Saturday December 20.
Solution to yesterday's prize puzzle on Monday December 22.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

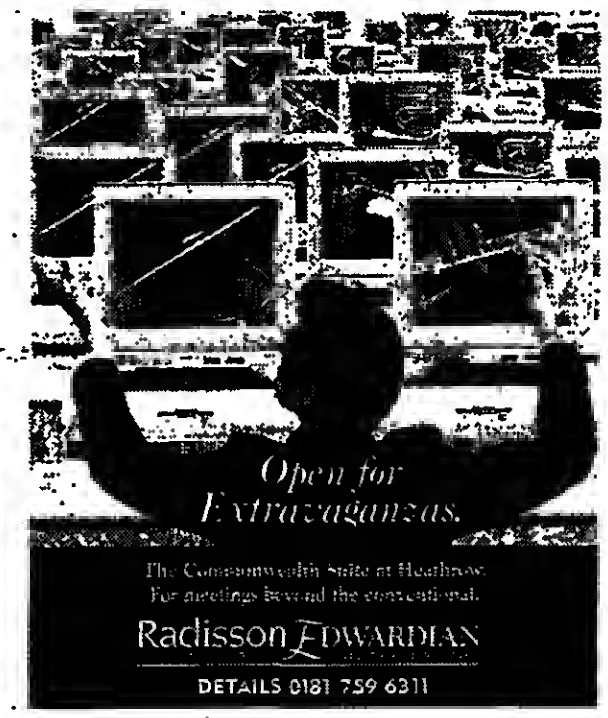
BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)



IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (FSA RECOGNISED)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Init Notes Charge	Selling Price	Buying Price	+ or -	Yield Gr's
BAII Asset Management Ltd					
10 Piccadilly, London W1V 0EE 0171 734 3700					
International NAV Nov 14 F		$575.35		+0.82	-
Frontrunner I (u)					
672 rue de Neudorf, Luxembourg 00 352 43887350					
GT Global					
Bank Von Ernst & Cie AG					
Banque Indosuez					
Barclays Diversified Portfolio (z)					
50 avenue J.F. Kennedy, L-2951					
HSBC Investment Funds Luxembourg SA (u)					
[illegible]					

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

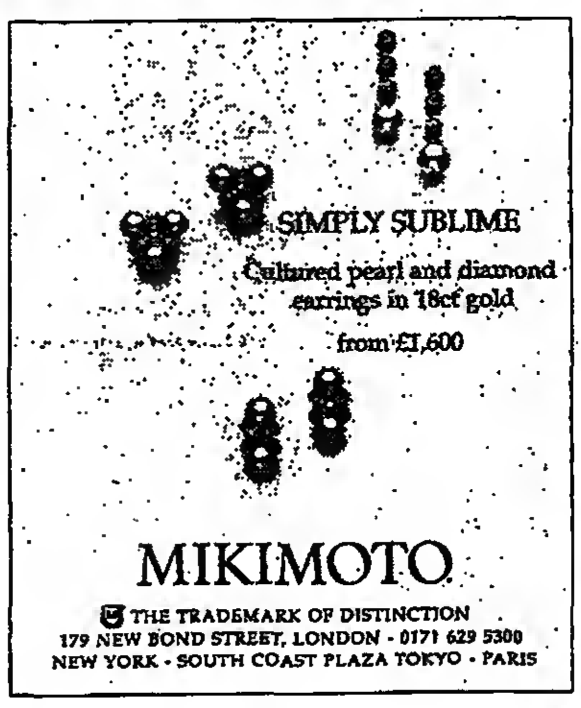
● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Professional Investment Consultants				
Premier Lux $	$1.14	1.23	—	-
Premier Lux £	£0.79	0.83	—	-
[illegible]	$1.520	1.430	—	-
SPLA Flexible Growth	$1.0300	1.1080	(2)	-
Royal Life International				
Royal Court, Armory Rd, Castletown IoM			01624 821212	
[illegible]				
Royal Skandia Life Assurance Ltd (z)				
Skandia Hse, Finch Rd, Douglas, IoM			01624 611611	
[illegible]				

	Selling Price	Buying Price	+ or -	Yield Gross
Aurum Funds				
[illegible]				
BAS-EX Currency Fund Plc				
BEA Associates				
Julius Baer Bank & Trust Co Ltd				
Banca Reig. S.A. (Principality of Andorra)				
Banco do Brasil-BB Fund				
Banc Internacional D'Andorra Banca Mora				
[illegible]				

	Selling Price	Buying Price	+ or -	Yield Gross
Global Alfa Inc				
NAV Nov 25	$833.78		—	-
Global Convertible Megatrend				
NAV Oct 31	$127.58		—	-
Global Fund Management S.A.				
[illegible]	$10.50		—	-
The Global Managed Investor Bond Limited				
Global Growth	$1.142	1.200	—	0.00
Managed Fd USD Class	$1.149	1.207	—	0.00
Managed Fd DEM Class	DM1.158	1.214	—	0.00
Managed Fd GBP Class	£1.128	1.185	—	0.00

	Selling Price	Buying Price	+ or -	Yield Gross
Jupiter Asset Management (Asia) Ltd				
Hong Kong Investment Co Ltd	$5.77		-0.40	-
Philippine Investment Co Ltd	$0.55		-0.08	-
Jupiter Asset Mngt (Bermuda) Ltd				
Jupiter Hedge	£1.80	1.89	+0.13	-
[illegible]	$1.37	1.45	+0.04	-
[illegible]	$0.31	0.34	+0.01	-
[illegible]	$1.43	1.51	+0.01	-



	Selling Price	Buying Price	+ or -	Yield Gross
Global Portfolio (BVI) Management Ltd				
Goldman Sachs				
[illegible]				

	Selling Price	Buying Price	+ or -	Yield Gross
KO Offshore Fund, C.V.				
[illegible]	$54.8		—	-
Kenmar Management Limited				
[illegible]				

OTHER OFFSHORE FUNDS

[illegible]

● MANAGED FUNDS NOTES

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

BREWERIES, PUBS & REST

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

BUILDING & CONSTRUCTION

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

BUILDING MATS. & MERCHANTS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

CHEMICALS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

CHEMICALS - Cont.

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

DISTRIBUTORS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

DIVERSIFIED INDUSTRIALS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

ELECTRICITY

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

ELECTRONIC & ELECTRICAL EQPT

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

ENGINEERING

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

ENGINEERING - Cont.

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

ENGINEERING, VEHICLES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

EXTRACTIVE INDUSTRIES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

EXTRACTIVE INDUSTRIES - Cont.

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

FOOD PRODUCERS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

GAS DISTRIBUTION

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

HEALTH CARE

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

HEALTH CARE - Cont.

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

HOUSEHOLD GOODS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

INSURANCE

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
[illegible]								

INVESTMENT TRUSTS

Approved by the Inland Revenue

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

PROPERTY - Cont.

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

TELECOMMUNICATIONS

[illegible]

RETAILERS, GENERAL

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£22¼	—	*£27¾	£21⅝	–	3.0	Φ
Barlow	Φ	£5⅝	[illegible]	£8½	£5½	–	3.0	Φ
Gold Flds Prop R		121½	+¼	187	119	–	6.7	10.0
SA Brews	†	£14⅛xd	+⅛	£23¼	£13¾	–	2.5	–
Standard Bank		£25⅛	–⅞	£30	£21	–	2.1	–
Tiger Oats		845xd	+27¼	1100	790	–	2.3	Φ
Tongaat-Hulett		747½xd	+11¼	780	719½	–	2.4	Φ

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		£59300xd	—	£59300	£472	–	–	–

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1996-97. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1997. K Yield based on prospectus or other official estimates for 1996. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. O Dividend is paid in whole or part as a FID (Foreign Income Dividend). R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

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LONDON STOCK EXCHANGE

Footsie regains and then loses 5,200 level

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Only two trading sessions after it surpassed the 5,100 level, the FTSE 100 index took another substantial step forward yesterday, briefly recrossing the 5,200 mark.

There were good gains across the market with the second-liners and small caps making useful progress, although they failed to keep pace with the leaders.

Behind the London market's latest surge, which has seen Footsie leap over 250 points, or 5 per cent, over the past three sessions, was Wall Street's closing display on Friday, a good showing by the Hong Kong market, weaker-than-expected domestic economic news and another burst of takeover speculation.

The latter came in the wake of the merger of two Swiss banks, UBS and Swiss Bank Corporation, which many observers see as evidence of gathering pace in the restructuring of global banking.

UK bank shares have outperformed the equity market over the past two years, partly in the wake of excellent profits performance but also because of the prospect of consolidation. The last big merger, between Lloyds Bank and TSB, is widely seen as a success because of cost savings.

Footsie finished the session 44.5 higher at 5,187.4, while the FTSE 250 rose 29.7 to 4,781.0 and the SmallCap 7.8 to 2,304.3.

London got off to the best possible start, surging through 5,200 as the market priced in Wall Street's big gains on Friday when the Dow Jones Industrial Average finished almost 100 points up despite a large increase in the US non-farm payroll figure.

That report initially wiped out the Dow's early gains, as traders fretted over the possibility that the Federal Reserve's open market committee might sanction a rise in US interest rates when it meets next Tuesday.

Hong Kong added to the good news, moving up almost 2 per cent, although the Seoul stock market was decidedly weak.

The UK economic data were also seen as bullish, with weaker-than-forecast industrial production, manufacturing output and producer price figures seen as vindicating the decision of the monetary policy committee not to recommend a rise in UK interest rates.

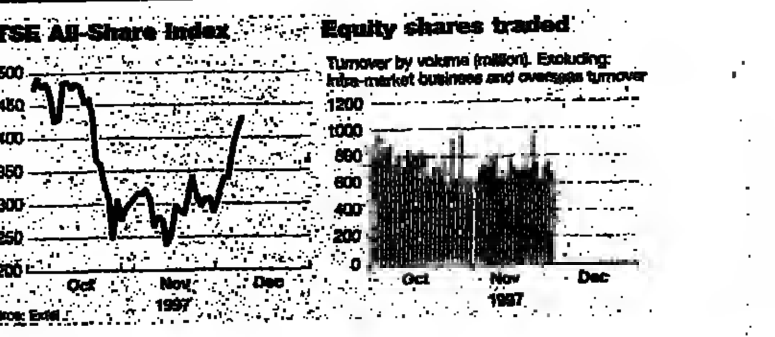
Economists said the data provided further evidence that the recent strength of sterling is restraining economic activity. Paul Mortimer-Lee, at Paribas, said: "With the economy set to slow next year, one more hike from the MPC is the most that is likely to be delivered."

In the latest Merrill Lynch survey of UK fund managers, carried out by Gallup, the proportion of investors planning to buy UK equities is matched by an equal number looking to sell.

But the strategy team at Lehman Brothers continued to adopt a bullish stance on UK equities. "We think it makes a lot of sense to switch exposure from gilts into UK equities. The 10 per cent underperformance of equities since August leaves them looking very cheap in our framework," said the Lehman team.

Turnover was a respectable 708m shares.

FTSE All-Share Index



Indices and ratios

FTSE 100	5187.4	+44.5	FT 30	3291.5	+11.7
FTSE 250	4781.0	+29.7	FTSE Non-Fins p/e	20.33	20.22
FTSE 350	2489.3	+20.3	FTSE100 Fut Dec	5218.0	+29.0
FTSE All-Share	2428.34	+19.01	10 yr Gilt yield	6.55	6.60
FTSE All-Share yield	3.21	3.24	Long gilt/equity yld ratio	2.03	2.04

Best performing sectors		Worst performing sectors	
1 Extractive Inds	+2.8	1 Building Matls	-1.2
2 Banks: Retail	+2.2	2 Engineering: Vehicles	-1.1
3 Alcoholic Beverages	+1.7	3 Diversified Inds	-1.0
4 Mineral Extraction	+1.6	4 Retailers: Food	-0.9
5 Oil: Integrated	+1.5	5 Media	-0.5

NatWest equals record

By Peter John, Joel Kibazo and Martin Brice

National Westminster shares continued their seemingly relentless rise yesterday as the consolidation speculation within the sector gathered pace.

The shares jumped 58 to 998p, matching the previous closing peak. The shares have gained 50 per cent over the past 12 months.

NatWest has been the focus of bid talk for weeks and the rumours grew over the weekend as it became clear that Swiss Bank Corporation and Union Bank of Switzerland are to merge.

There was also a press report that, if Barclays were to make an apprdach to NatWest, and try to counter the consolidation in continental Europe, Lloyds TSB would consider a counter-offer. Lloyds jumped 25½ to 785½p while Barclays rose 27 to £15.73.

Reuters Holdings, the news and electronic trading group, suffered a touch of post-celebration hangover as investors sold the stock following last week's announcement of a rolling share buy-back.

The shares have risen 30 per cent since the summer and the current status of the company has encouraged Panmure Gordon to turn short-term seller and cut its profits forecast from £750m to £613m.

"Now that the buy-back is history rather than mystery, we think it's in the price," said Panmure analyst Lorna Tilbian.

Most of the forecast reduction reflected the share buy-back but the downgrade also included a 5 per cent cut because of the economic trouble in Asia.

Finally, the merger of Swiss Bank Corporation and Union Bank of Switzerland is expected to lead not only to a loss of jobs at the banks but a reduction of trading screens, which will hit Reuters' revenue. Reuters dropped 15½ to 716p.

Sedgwick hints

The two biggest insurance brokers in the UK, Sedgwick and Willis Corroon, raced higher late in the session amid a burst of speculation that a merger between the two could be immineot.

Big gains in both were accompanied by higher than usual turnover. Sedgwick rose 8½ to 141p on turnover of 2.4m, and Willis Corroon 6 to 131p with 2.5m shares changing hands.

"It is highly feasible that such a move could be on the cards," said one insurance specialist. PDFM, the fund management group, has a 26 per cent holding in Sedgwick and a 22 per cent stake in Willis Corroon. Oakmark, the US fund, run by David Herro has built up a 6.7% stake in Sedgwick.

The weakening of the pound against the D-Mark yesterday helped manufacturing exporters. TI Group, up 27 at 527p, achieved one of the best advances in the FTSE 100 index. British Steel gained 4½ to 143½p and British Airways rose 13 to 580p.

The continuing high level of sterling has hurt shares in companies exposed to overseas earnings but some traders are suggesting those stocks may experience a re-rating if the UK enters the euro at a rate of around DM2.60 to the pound.

Siebe gained 3 to £12.45 following an analysts' visit to its Foxboro subsidiary in the US, which ended late last week. The visit was said to have a positive tone, and traders expect a series of "buy" notes from analysts this week. However, there is said to be some doubt over how far the shares may rise following the profit warning last week from BTR. Siebe is said to have similar exposure to the troubled Asian markets as BTR, which yesterday shed a further 3½ to 179p in volume of 13m. Ian Strachan, chief executive, paid 180p each yesterday for 70,000 shares.

GKN shed 44 to £13.08 on fears of a delay to an order from its Westland subsidiary for the supply of 15 helicopters to the Canadian government.

A general feeling that food retailer Tesco has run too far ahead proved more significant than news of a disposal.

Moving against the market trend, shares in the group declined 15¼ to 516p on volume of 5.3m. Tesco has been a strong performer for much of this year and hit its all-time high of 531¼p last Friday.

The group yesterday confirmed press reports that it is in talks with retailer Promodes on the sale of Catteau, its French subsidiary.

Speciality chemicals group Yule Catto fell after it launched a £256m bid for Holliday Chemical, maker of speciality chemicals. The agreed deal would create a merged group with annual sales of £550m.

Yule is offering 105.3p in cash and 0.45 new Yule Catto ordinary shares for each Holliday share. Yule said it had acceptances for 18 per cent of Holliday's share capital.

Yule's share price fell 32 to 274½p while Holliday, which had gained strongly since it announced last week that it was holding discussions with a willing buyer, fell 8 to 225½p.

Art auctioneer Christie's International featured after it said it had "recently received a preliminary approach". However, the company said the talks had been broken off.

The shares, a good market on Friday, initially moved firmly ahead on the statement before retreating to close a penny higher at 250½p.

Shares in luxury goods company Mulberry Group fell 12¼ to 89p after a weekend press report said the recent problems in Asian markets had led to falling sales of luxury goods.

BSkyB fell 7 to 463p as Lehman Brothers repeated a "neutral" rating following a meeting with the company's new management team.

Lehman said the first meeting with Mark Booth, the new chief executive, had been positive but there had been nothing to alter the assessment of the stock. It said a positive newsflow needed to start trickling through before the shares were worth more than 420p.

News that US West has had informal, preliminary bid talks with Telewest Communications helped make the latter the best performing stock in the FTSE 250. The shares improved 6½ or 8.9 per cent to 79½p.

Telewest is Britain's second biggest cable company and US West already holds a 27 per cent stake in the group. Telewest is still officially in discussions with a rival cable company NTL.

Hardy Oil & Gas were sharply higher underpinned by a new 12-month target price of 320p a share from SBC Warburg Dillon Read. The broker has moved its rating on the oil exploration and production stock to "buy" from "hold". There is also speculation of expansion in Australia. The stock closed 18 higher at 279p.

FT 30 INDEX

	Dec 6	Dec 5	Dec 4	Dec 3	Dec 2	Yr ago	*High	*Low
FT 30	3291.5	3279.8	3264.4	3208.6	3205.2	2772.8	3430.3	2868.8
Ord. div. yield	3.42	3.44	3.47	3.55	3.55	4.1	4.22	3.29
P/E ratio net	21.47	21.35	21.16	20.72	20.73	15.75	22.33	15.8
P/E ratio nil	21.18	21.05	20.89	20.43	20.45	15.58	22.02	15.71

FT 30 since compilation: high 3430.3 16/10/97; low 49.4 18/02/00. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3279.8	3309.1	3303.5	3304.7	3310.0	3300.7	3302.3	3297.0	3293.7	3316.3	3278.2

	Dec 6	Dec 5	Dec 4	Dec 3	Dec 2	Yr ago
SEAQ bargains	59,302	62,682	62,014	44,637	50,819	37,010
Equity turnover (£m)†	-	NA	2276.3	2369.4	2597.9	613.2
Equity bargains†	-	NA	49,965	39,481	41,328	20,862
Shares traded (m)†	-	NA	663.5	676.1	732.5	272.6

†Excluding intra-market and overseas turnover but including Crest turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,224	Total Highs	131	Total contracts	34,687
Total Falls	429	Total Lows	71	Calls	18,347
Same	1,394			Puts	16,340

Dec 8 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5195.0	5218.0	+29.0	5245.0	5195.0	7793	55834
Mar	5245.0	5268.5	+30.0	5294.0	5245.0	2148	12992

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4790.0	+30.0	-	-	0	5918
Mar	-	4864.5	+30.0	-	-	0	1453

■ FTSE 100 INDEX OPTION (LIFFE) (*5197) £10 per full index point

	5000	5050	5100	5150	5200	5250	5300	5350
	C P	C P	C P	C P	C P	C P	C P	C P
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 6,607 Puts 2,158

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5025	5075	5125	5175	5225	5275	5325	5375
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 3,959 Puts 9,046 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	51.1	102	99½	Advance UK Tst	102	+½	-	-	-	-
-	F.P.	1,354	30½	29½	BG 'B'	30½		-	-	-	-
-	F.P.	13.7	21½	16½	Boustead	20½	-½	-	-	-	-
§60	F.P.	17.2	134½	102½	†CHC	134½	+6	W-	-	-	24.2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Dec 5	% chg on day	Dec 4	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	931.03	+1.9	914.80	1878.78	3.00	-	1907.49	914.80
■ Regional Indices								
Africa (15)	921.78	-3.0	950.58	2157.74	7.71	16.40	2333.56	921.78
Australasia (8)	980.56	-1.8	973.46	2174.58	3.36	12.24	2217.50	951.45
North America (10)	941.13	+4.0	905.12	1762.59	1.37	34.99	1793.48	905.12

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Dec 8	Day's chge%	Dec 5	Dec 4	Year ago	Gross yield%	Net yield%	Cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5187.4	+0.9	5142.9	5082.3	4011.6	3.15	2.58	2.05	19.27	140.89	2237.54
FTSE 250	4781.0	+0.6	4751.3	4724.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	2489.3	+0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 Higher Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 Lower Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	2304.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	2428.34	+0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	-	5206.9	5200.3	5205.3	5222.7	5209.7	5208.3	5203.3	5197.4	5223.5	5148.2
FTSE 250	-	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	-	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	-	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Further information is available on http://www.ftse.com

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities yesterday until 4.30pm. † Indicates a FTSE 100 index constituent. All trades are rounded. Source: Extel, part of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 5 / Sch)

BELGIUM/LUXEMBOURG (Dec 8 / Frs.)

CZECH REP (Dec 8 / Korunu)

DENMARK (Dec 8 / Kr)

FINLAND (Dec 8 / Mka)

FRANCE (Dec 8 / Frs.)

GERMANY (Dec 8 / Dm.)

GREECE (Dec 8 / Drachma)

ITALY (Dec 5 / Lire)

NETHERLANDS (Dec 8 / Fls.)

NORWAY (Dec 8 / Kroner)

POLAND (Dec 8 / Zloty)

PORTUGAL (Dec 5 / Escudo)

SPAIN (Dec 5 / Pts.)

SWEDEN (Dec 8 / Kronor)

SWITZERLAND (Dec 8 / Frs.)

TURKEY (Dec 8 / Tk Lira)

PACIFIC

JAPAN (Dec 8 / Yen)

AUSTRALIA (Dec 8 / Aust$)

HONG KONG (Dec 8 / H.K.$)

INDONESIA (Dec 8 / Rupiah)

MALAYSIA (Dec 8 / MYR)

NEW ZEALAND (Dec 8 / NZ $)

SINGAPORE (Dec 8 / S$)

SOUTH KOREA (Dec 8 / Won)

TAIWAN (Dec 8 / TW $)

THAILAND (Dec 8 / Baht)

AFRICA

SOUTH AFRICA (Dec 8 / Rand)

NORTH AMERICA

CANADA

TORONTO (Dec 8 / Can $)

4 pm close

MONTREAL (Dec 8 / Can $)

4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY DECEMBER 5 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY DECEMBER 4 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (74)	200.16	-0.1	179.12	164.64	185.52	198.39	0.1	3.80	200.27	177.20	163.79	184.33	198.14	243.87	190.41	219.16
Austria (22)	189.95	-0.8	169.98	156.24	176.05	175.99	-0.1	1.93	191.56	169.49	156.66	176.31	176.22	213.59	175.14	185.79
Belgium (27)	257.03	0.1	230.01	211.41	238.23	232.96	0.7	2.96	256.71	227.14	209.94	236.28	231.33	261.11	221.31	225.88
Brazil (30)	235.78	0.1	210.99	193.93	218.53	481.78	0.1	1.55	235.53	208.40	192.61	216.78	481.35	322.44	178.98	186.70
Canada (122)	214.66	1.0	192.10	176.57	198.96	221.08	0.9	1.79	212.58	188.09	173.85	195.66	219.01	233.66	178.27	188.09
Denmark (32)	432.33	0.1	386.89	355.61	400.71	399.18	0.8	1.28	431.74	382.00	353.07	397.38	395.90	432.33	334.25	336.89
Finland (28)	295.04	-0.2	264.03	242.68	273.46	333.72	0.5	1.88	295.73	261.67	241.85	272.19	332.15	349.43	232.86	241.42
France (84)	234.27	-0.8	209.64	192.69	217.13	218.23	-0.1	2.43	236.17	208.96	193.14	217.37	219.53	248.23	203.73	209.64
Germany (58)	228.58	0.1	204.55	188.02	211.86	211.86	0.8	1.39	228.26	201.96	186.67	210.09	210.09	243.67	183.08	189.86
Hong Kong, China (66)	385.20	0.8	344.71	316.84	357.03	382.63	0.8	4.16	382.25	338.21	312.60	351.82	379.70	580.03	314.78	513.18
Indonesia (27)	93.98	4.2	84.10	77.30	87.10	231.78	5.9	2.91	90.22	79.82	73.78	83.03	218.89	254.90	87.34	230.11
Ireland (16)	400.70	-0.7	358.58	329.59	371.39	386.87	-0.2	2.56	403.60	357.11	330.06	371.48	387.56	403.60	310.26	314.34
Italy (53)	111.31	-0.5	99.81	81.56	103.17	145.14	0.1	1.88	111.82	98.94	91.45	102.92	144.96	115.27	79.11	82.10
Japan (482)	99.38	0.2	86.93	81.74	92.11	81.74	0.7	0.97	99.22	87.79	81.14	91.32	81.14	141.12	95.91	140.13
Malaysia (107)	180.53	2.9	161.55	148.49	167.33	260.38	3.4	2.80	175.47	155.26	143.50	161.50	251.75	660.85	170.21	599.76
Mexico (27)	1726.11	-0.8	1544.67	1419.79	1599.85	15365.90	-0.3	1.56	1739.23	1538.88	1422.33	1600.80	15417.06	1901.86	1147.98	1218.90
Netherlands (19)	412.29	0.0	368.95	339.12	382.13	378.04	0.7	2.22	412.20	364.71	337.09	379.39	375.32	440.67	313.78	321.43
New Zealand (14)	82.40	-0.2	73.74	67.78	76.37	72.84	0.1	4.24	82.61	73.09	67.56	76.03	72.75	96.47	75.37	93.30
Norway (38)	327.56	-0.1	293.13	269.43	303.60	321.08	0.7	1.90	327.62	290.06	268.09	301.73	318.79	374.64	277.33	284.51
Philippines (22)	89.25	5.2	79.67	73.41	82.72	156.47	5.1	1.32	84.79	75.03	69.34	78.05	148.85	214.07	78.40	203.02
Singapore (42)	257.58	1.6	230.49	211.86	238.72	191.87	1.8	1.67	253.48	224.28	207.29	233.30	188.45	448.01	215.21	420.05
South Africa (43)	262.37	-2.4	234.79	215.81	243.18	279.59	-2.1	3.11	268.69	237.74	218.73	247.30	285.61	370.12	259.47	325.06
Spain (33)	272.43	-0.3	243.78	224.08	252.50	310.65	0.3	2.18	273.21	241.74	223.43	251.47	309.85	277.33	198.92	200.23
Sweden (49)	485.17	-1.5	434.17	399.07	449.68	562.33	-0.7	1.84	492.59	435.84	402.83	453.38	566.51	538.64	402.43	415.18
Switzerland (32)	332.07	0.0	297.18	273.14	307.78	296.37	0.5	1.13	331.98	293.74	271.49	305.56	294.67	332.07	231.69	241.80
Thailand (39)	24.24	0.0	21.69	19.94	22.47	39.28	0.0	7.23	24.24	21.45	19.82	22.31	39.28	109.20	22.52	108.89
United Kingdom (216)	334.23	0.0	299.10	274.82	309.78	299.10	1.2	3.30	334.14	295.65	273.26	307.54	295.86	337.99	261.60	264.97
USA (642)	401.22	1.1	359.04	330.01	371.87	401.22	1.1	1.54	396.95	351.23	324.63	365.38	396.95	401.22	293.43	302.90
Americas (821)	364.22	1.0	325.94	299.59	337.58	307.35	1.0	1.55	360.47	318.94	294.79	331.78	304.17	365.75	268.24	276.91
Europe (706)	288.18	-0.2	257.90	237.04	267.11	270.59	0.7	2.37	288.68	255.43	236.08	265.70	268.82	296.25	227.46	231.11
Nordic (147)	422.56	-0.9	378.14	347.57	391.65	426.52	-0.2	1.77	425.47	377.35	348.77	392.53	427.24	464.93	345.30	354.66
Pacific Basin (873)	110.97	0.3	99.31	91.28	102.88	91.85	0.8	1.62	110.62	97.88	90.47	101.82	81.12	158.99	107.50	158.37
Euro-Pacific (1579)	184.89	-0.0	165.46	152.08	171.37	158.97	0.7	2.11	184.90	163.60	151.21	170.18	157.85	209.12	173.55	188.56
North America (764)	389.32	1.1	348.40	320.23	360.85	389.07	1.1	1.55	385.20	340.83	315.02	354.54	384.96	389.57	286.81	295.98
Europe Ex. UK (491)	257.28	-0.3	230.24	211.62	238.46	248.50	0.4	1.83	258.02	228.30	211.01	237.48	247.59	267.07	202.63	207.74
Pacific Ex. Japan (391)	213.35	0.8	190.92	175.48	197.74	209.56	1.0	3.71	211.62	187.24	173.06	194.78	207.52	320.65	194.30	316.31
World Ex. US (1801)	188.79	0.0	168.88	155.21	174.90	165.63	0.7	2.09	188.58	166.94	154.30	173.66	164.53	212.89	176.94	190.54
World Ex. UK (2228)	249.86	0.6	223.60	205.52	231.59	227.10	0.8	1.63	248.33	219.72	203.08	228.57	225.21	262.69	211.16	222.10
World Ex. Japan (1961)	335.99	0.6	300.67	276.36	311.41	329.84	0.9	1.92	333.96	295.49	273.11	307.39	325.93	344.35	264.51	270.85
The World Index (2443)	257.03	0.6	230.01	211.41	238.23	233.68	0.9	1.81	255.61	226.17	209.04	235.27	231.64	268.47	216.61	225.80

 CONSTITUENT CHANGE WITH EFFECT 8/12/97: Deletion: Redland (UK). CONSTITUENT CHANGE WITH EFFECT 12/12/97: Addition: Austrian Tabak (Large Cap Share weighting 43.5%) Austria. Latest prices were unavailable for this edition. Market closed 5/12/97: Thailand

Emerging markets: IFC Investable indices

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; ... Latest indices were unavailable for this edition.

FT Free Annual Reports Service

4 pm close December 8

NEW YORK STOCK EXCHANGE PRICES

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Extel, part of FT Information.

NASDAQ

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 5	Dec 4	Dec 3	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	8149.13	8050.16	8032.01	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.66	104.56	104.52	104.66 (4/12)	101.09 (14/4)	104.66 (4/12/97)	54.99 (1/10/81)
Transport	3315.94	3305.64	3290.64	3359.27 (15/10)	2222.07 (2/1)	3359.27 (15/10/97)	13.23 (8/7/32)
Utilities	258.09	258.26	256.45	261.16 (1/12)	209.47 (25/4)	261.16 (1/12/97)	10.53 (8/7/32)

DJ Ind. Day's high 8209.56 (8159.58) Low 7980.04 (7978.30) (Theoretical‡)
Day's high 8168.29 (8113.82) Low 8017.09 (8023.80) (Actual‡)

Standard and Poors	Dec 5	Dec 4	Dec 3	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	983.79	973.10	976.77	983.79 (5/12)	737.01 (2/1)	983.79 (5/12/97)	4.40 (1/6/32)
Industrials¥	1140.07	1126.90	1133.35	1146.82 (7/10)	865.42 (11/4)	1146.82 (7/10/97)	3.52 (30/6/32)
Financial¥	120.78	119.61	119.03	120.78 (5/12)	80.75 (2/1)	120.78 (5/12/97)	7.18 (4/9/74)
Others							
NYSE Comp.	514.31	508.44	510.15	514.31 (5/12)	390.47 (11/4)	514.31 (5/12/97)	4.64 (25/4/42)
Amex Comp	670.27	665.80	669.10	721.90 (7/10)	541.20 (28/4)	721.90 (7/10/97)	324.20 (16/7/96)
NASDAQ Cmp	1633.90	1613.42	1615.13	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	438.06	434.91	433.31	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	122.36 (7/12/93)

RATIOS

	Dec 5	Nov 28	Nov 21	Year ago
Dow Jones Ind. Div. Yield	1.68	1.74	1.73	2.05
	Dec 3	Nov 26	Nov 19	Year ago
S & P Ind. Div. yield	1.46	1.50	1.50	1.83
S & P Ind. P/E ratio	26.33	25.78	25.38	23.05

US DATA

MARKET ACTIVITY

Volume (million)	Dec 5	Dec 4	Dec 3
NYSE	563.580	637.056	634.470
Amex	28.708	31.014	25.300
NASDAQ	671.069	702.203	730.508

NYSE	Dec 5	Dec 4	Dec 3
Issues Traded	3,421	3,443	3,443
Rises	1,722	1,554	1,652
Falls	1,167	1,340	1,253
Unchanged	532	549	538
New Highs	186	257	222
New Lows	48	53	54

NYSE TRADING ACTIVITY — Volume : 563,580,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	6,646,300	64⅞	+⅛
Cabletron	5,300,100	15⅛	+⅛
Hwlt-Pkrd	5,074,100	67½	+4¾
Travelers	4,278,200	56	-¼
Fleet Fin	4,234,800	71⅞	+1⅜
Texas Inst	4,178,880	46¼	+2
Texaco	3,951,000	55⅜	+1⅛
First Data	3,853,200	29¾	+⅛
Boeing	3,702,900	52⅛	-⅛
Exxon	3,844,000	64	+1⅛

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Tupple Res	42½	+3½	+8.9
Avon Prods	61⅛	+4¾	+8.4
BR	53½	+3⅞	+7.9
Cooper Cmrs	69¾	+5⅛	+7.9
Downs			
Pierce Lty	15½	-6½	-29.5
AVX	21⅞	-2¾	-11.1
Crane Intl	41⅛	-4⅞	-10.6
Beckle	33	-3⅛	-8.6

NASDAQ TRADING ACTIVITY — Volume :671,069,000

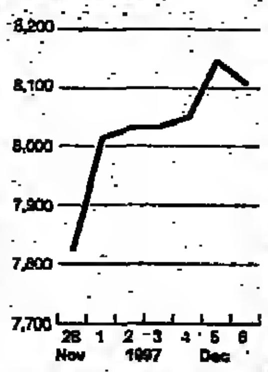
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Ascend	30,118,500	28⅞	+2⅛
Three Com	14,153,100	36⅛	+2⅜
Intel	13,392,000	77⅛	+¾
Appld Matl	10,921,400	35	+1⅜
Cisco Sys	9,234,600	89½	+3
Comdisco	8,348,000	25⅞	+2
Dell Cmptr	8,106,900	93¾	+2⅛
Oracle	7,784,100	31⅛	+⅞
Microsoft	6,048,100	143½	+⅛
Sun Micrsys	5,619,300	41⅛	+1

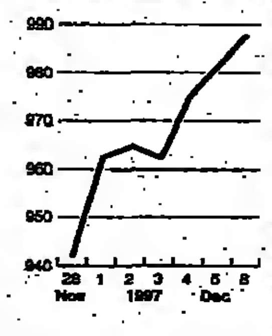
BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
3DFX Inter	19⅛	+4⅞	+34.9
Orbit/FR	17¾	+3¾	+27.5
Smirno SK	51	+10¼	+25.5
Coulter Pharm	22⅝	+3¾	+19.8
Downs			
Atlantic PH	9½	-2	-17.4
Worthing Fd	19¼	-3	-13.5
Ovs & Bstrs	23¾	-3¼	-12.5
Cybermedia	19¾	-2¾	-12.1

Dow Jones



FTSE Eurotop 300



JAPAN

	Dec 8	Dec 5	Dec 4	1997 High	1997 Low	Since compilation High	Since compilation Low
Nikkei 225	16131.57	16424.48	16308.78	20681.07	15082.52	38915.9	85.25

TOKYO TRADING ACTIVITY — Volume : 425,000,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Hokk Taku Bk	29,968,000	1	-1
Yasuda T & B	20,677,000	143	+12
Np Steel Cp	12,595,000	201	-10
NKK Corp	10,582,000	114	-13
LTCB	9,589,000	213	+5
Yamaichi Sec	9,074,000	1	
Kobe Steel	9,070,000	106	-5
Sakura Bank	7,459,000	426	-23
Daiwa Secs	7,038,000	405	-6
Fuji Bank	6,709,000	643	+1

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Komatsu Gas	150	+22	+17.2
Shiloten	197	+25	+14.5
C. I. Corp	417	+50	+13.6
Ohki Corp	200	+17	+9.3
Downs			
Minami Nst	689	-151	-18.4
Oyo Corp	2150	-400	-16.7
Storm Forst	606	-100	-15.2
Tostem Cp	1190	-200	-14.4

FRANCE

	Dec 8	Dec 5	Dec 4	1997 High	1997 Low	Since compilation High	Since compilation Low
CAC 40	2932.47	2910.09	2914.45	3094.01	2256.97	3094.01	984.61

PARIS TRADING ACTIVITY — Volume : 289,369,600

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
A.N.P.	1,487,169	313.8	+11.8
Paribas	1,442,606	461.5	+17
AGF	1,315,073	329.6	-3.9
Fr Telecom	836,073	217.8	+1
Axa-UAP	814,719	448	+1.8
Soc Generale	768,222	825	+19
Rho-Poulc A	705,474	268.8	+2.3
Elf Aqtne	602,947	680	-1
Alcatel Al	562,801	784	+17
Usinor	505,952	92.35	+0.45

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
IDIA	210	+38	+22.1
Cas-Blanzy	361.8	+33.8	+10.2
UAP	179.9	+12.1	+7.2
Cantove	18	+1	+7.1
Downs			
Mille Amis	39	-5	-11.4
Trailast	252	-28	-10
Intbat et Fn	140	-15	-9.7
Finatis	181	-19	-9.5

GERMANY

	Dec 8	Dec 5	Dec 4	1997 High	1997 Low	Since compilation High	Since compilation Low
DAX	4223.38	4170.08	4138.80	4438.93	2848.77	4438.93	931.10

FRANKFURT TRADING ACTIVITY — Volume : 10,575,643

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Commzbnk	1,869,319	66.35	+3.10
Lithean Rg	1,090,752	34.5	-0.25
Deutsche Bk	643,158	121.85	+3.79
Dt Telekom	556,311	35.8	-0.1
BASF	491,806	64.35	
Dresdner Bk	476,975	78.95	+4.35
Siemens	463,483	111.25	+0.45
Bayer	455,934	67.45	+0.25
Veba	378,844	115.8	+0.55
Hoechst	371,361	64.35	+1.25

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Pfaff	64.9	+8.1	+14.3
Plettac	265	+15	+6
Dresdner Bank	78.95	+4.35	+5.8
Fuchs Petro	219	+11	+5.3
Downs			
Bilfgr & Berg.	54.8	-8.1	-12.9
Vossloh	94.3	-8.2	-8
Pfleiderer	29.5	-1.7	-5.4
Axa Allg Hldg	442	-23	-4.9

UK

	Dec 8	Dec 5	Dec 4	1997 High	1997 Low	Since compilation High	Since compilation Low
FTSE 100	5187.4	5142.9	5082.3	5330.80	4056.60	5330.8	986.9

LONDON TRADING ACTIVITY — Volume : 709,300,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Br Steel	22,748,770	143½	+4½
Centrica	21,389,850	93½	+½
Lon Int Grp	17,312,680	152	
Safeway	14,406,170	325	
BTR	13,482,710	179	-3½
Shell T&T	11,039,830	444	+9
O'seas Inv	11,011,560	444	+11
Wiggins	10,032,130	12¼	-½
Saatchi Bchm	9,608,682	634	
Nat West	8,335,607	998	+58

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Clivedon	61	+10	+10.0
Total Sys	70½	+11	+18.5
Aviva Pet	20½	+3	+17.1
Towry Law	54½	+7	+14.7
Downs			
Quarto	69½	-32	-31.5
Graham Hs	18¾	-6	-24.2
Princedale	18	-4½	-20.0
Mulberry	89	-12½	-12.3

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	986.70	987.00	+0.40	989.70	985.60	140,114	308,105
Mar	-	998.90	-	-	-	26,303	85,583

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	16400.0	16100.0	-360.0	16470.0	16080.0	18,222	106,194
Mar	16500.0	16120.0	-360.0	16500.0	16110.0	10,588	80,830

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2948.0	2942.0	+24.0	2957.0	2926.0	9,389	44,151
Jan	2954.0	2949.0	+24.0	2960.0	2954.0	30	4,584

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	4238.0	4216.0	+21.0	4247.0	4182.0	16,324	70,999
Mar	4275.0	4253.0	+15.0	4283.0	4234.0	2,682	11,569

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2483.00	2511.50	+28.50	2525.00	2483.00	2,840	30,005
Jan	2517.00	2516.50	+24.50	2533.00	2513.25	167	1,355

SOFFEX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	6194.0	6086.0	+76.1	6199.0	6080.0	5,592	20,439
Jan	6138.0	6094.0	+136.7	6176.7	6138.0	71	1,893

WORLD MARKETS AT A GLANCE

Country	Index	Dec 8	Dec 5	Dec 4	1997 High	1997 Low	Yield	P/E
Argentina	General	(c)	23347.82	23078.43	25771.78 22/10	18232.37 2/1	3.17	19.6
Closed for a national holiday.								
Australia	All Ordinaries	2587.0	2567.2	2552.5	2778.20 25/9	2289.20 28/10	3.57	18.4
	All Mining	583.2	576.2	578.6	887.10 24/2	541.10 27/11		
Mining stocks enjoyed bargain hunting. Rio Tinto surged 3.8 per cent, pushing broad market up 1.2 per cent.								
Hungary	Bux	7400.77	7270.02	7126.56	8493.86 6/8	4291.30 9/1	na	na
Positive lead across Europe sparked modest buying.								
India	BSE Sens.	3488.10	3469.08	3527.10	4548.82 5/8	3225.24 2/1		
	Crisil 500	837.73	836.22	849.06	943.29 5/8	822.71 2/1	na	na
Shares ended mixed in lacklustre trading.								
Poland	WIG	15029.6	15131.5	14697.2	16938.40 18/2	14223.76 25/11	1.69	11
Shares ended lower in thin trade. Losers led gainers 65 to 37.								
Portugal	BVL 30	(c)	3694.72	3682.36	3868.81 3/10	2165.57 2/1	1.54	26.5
	PSI 20	(c)	8571.40	8574.56	8803.52 3/10	8152.34 2/1		

NASDAQ NATIONAL MARKET

4 pm close December 8

NASDAQ NATIONAL MARKET

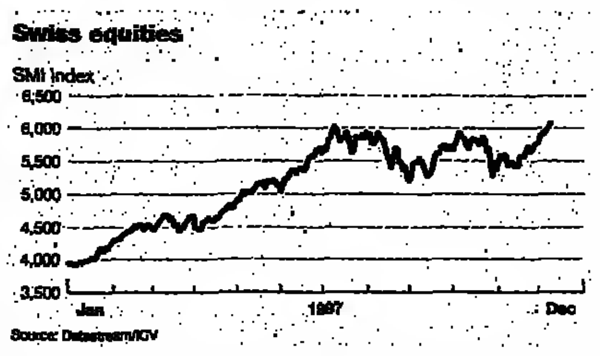
AMEX PRICES

4 pm close December 8

EASDAQ

Swiss merger boosts financial stocks

WORLD OVERVIEW



The announcement of the merger between Union Bank of Switzerland and Swiss Bank Corporation confirmed that "takeover fever" had returned to the European markets, and sent financial stocks rising across the continent, *writes Philip Coggan.*

German banks got a lift from the hope that they would be part of a European-wide consolidation which many expect in the financial services sector, and in many other industries as well.

French and Danish banks were also higher while the Swiss market, lifted by the strength of two of its largest stocks, recorded all-time intra-day and closing highs.

The theory is that the introduction of the single currency and the pressures of global consolidation will force many businesses to realise that, whilst big enough to compete within their domestic market, they are too small to battle with the big boys on a worldwide scale.

Furthermore, with volume growth in the western markets still low in historic terms, managements may see their best chance of increasing profits as coming through cost-cutting. The financial sector has plenty of costs to cut.

Meanwhile, the financial crisis continued to prompt some sharp movements in Asian markets, with Malaysia rallying strongly and Korea taking a hit. "It is probably too early to get back into the Asian markets, since prices don't tend to bottom out until six months after the crisis," says Joe Rooney, global strategist at Lehman Brothers.

Rooney says the market in which the investment bank is most heavily overweight is the UK. "Outside there, the fundamentals are still good in the US, although investors will probably get more leverage in the Latin American markets. Their fundamentals have been good but they have been penalised by the increase in risk aversion prompted by the crisis in Asia."

The big question, he says, concerns Japan, and the government's package, due to be announced tomorrow.

"The authorities need to take decisive action to deal with problem loans on the banks' books," he adds. "Two-thirds of the economy is starved of credit."

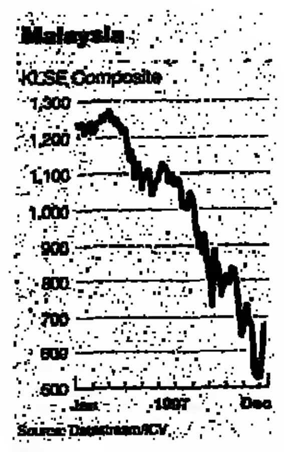
European fund managers are cautiously optimistic about the Japanese market, according to the latest Merrill Lynch/Gallup poll.

In net terms, the managers have turned bullish – with a balance of just 1 percentage point planning to increase their holdings – from being slightly bearish in the last survey.

One sign why markets in general may be moving higher at the moment is that the asset category about which managers are most bearish is cash, with a balance of 9 percentage points planning to reduce their cash allocation.

EMERGING MARKET FOCUS

Malaysia takes its medicine



Rarely has such a sharp austerity package been greeted with such euphoria.

On its first full day of trading since the government announced tough measures aimed at keeping the International Monetary Fund at bay, the Kuala Lumpur stock exchange's composite index surged 69.07 or 11.4 per cent to close at 676.47.

The market was not, however, celebrating the bitter medicine just prescribed. Rather, it was rejoicing that after months of denial, the authorities had finally articulated credible policies to combat the country's financial crisis.

But the exuberance should be savoured because it may not last long. Selling was evident at the end of yesterday's rally as investors began to focus on the effects that austerity will have on the real economy.

Economists said the package unveiled by Anwar Ibrahim, deputy prime minister and finance minister, signalled an important shift in strategy. Until last week, the authorities had prevailed on financial institutions not to call in their loans, in order to cushion corporate Malaysia from the pain of a downturn.

But Mr Anwar's directive that loans may now be called in amounted to a realisation that the country stands a better chance of resisting the IMF's attentions if it protects its banking system, rather than its companies. Several bankrupt companies and individuals, Mr Anwar acknowledged, will be the result.

"When the bankruptcies start rolling in, you watch the stock market," said one economist in Kuala Lumpur. "It is going to be painful until there are clear signs of a financial recovery. It will take at least a year, maybe two."

Unlike Thailand and Indonesia, Malaysia has a relatively modest exposure to debt denominated in US dollars. But it is more vulnerable than those countries on a different front – domestic borrowing. Total loans are expected to amount to 170 per cent of gross domestic product this year – the highest such ratio in south-east Asia.

This makes the economy particularly sensitive to domestic interest rates, which are almost certain to rise over the next few months in order to restrain building inflationary forces. One top Malaysian businessman said a base lending rate of 12 per cent would bring on some bankruptcies, and 15 per cent would be "disastrous". The BLR is currently inching up from 10 per cent.

Consumption spending has already begun to dive. Vehicle sales slumped 21.4 per cent year on year in October, and the important second-hand car market is heading for virtual collapse. This is crucial in a country where car prices are kept artificially high and almost all vehicles are bought on bank loans equivalent sometimes to 90 per cent of their value.

Property prices have so far remained relatively buoyant, but Mr Anwar's ruling that there should be no new lending to the real estate sector may take its toll next year as a hefty glut emerges.

James Kynge

US stocks mixed as bonds weaken

AMERICAS

US stocks were mixed at midday as the bond market continued to weaken and as further consolidation was seen in the banking sector, *writes John Labate in New York.*

In a switch from the trend of recent sessions, the technology sector strongly outperformed blue chips as the Dow Jones Industrial Average pulled back, losing 18.40 by early afternoon at 8,130.73.

Leading the Dow lower were shares in Coca-Cola, which lost 1\frac{11}{16}$ to 64\frac{3}{16}$ after analysts cut their estimates of 1998 earnings per share.

"The weak bond market finally caught up with the Dow, but the broader market is positive and it is looking through the bond market," said A. Marshall Acuff at Smith Barney. The Standard & Poor's 500 index remained in positive territory, gaining just under a point at 984.53.

The bond market was lower in quiet trade as the benchmark 30-year Treasury bond came under selling pressure on fears that the Japanese government may soon unload some of the government's holdings in Treasuries. Bond market traders said there were no signs of such selling so far, but an announcement might be coming shortly.

By early afternoon the long bond price had fallen $\frac{1}{32}$ to 100$\frac{3}{32}$, sending the yield higher at 6.109 per cent.

Strength in the computer sector sent the Nasdaq composite index sharply higher, rising 18.72 or 1.1 per cent at 1,652.62.

In the technology sector shares of recently weakened stocks rebounded. Networking company 3Com gained 1\frac{3}{8}$ to 37\frac{15}{16}$ while Xilinx rose 1\frac{5}{16}$ to 38\frac{3}{4}$ after the company announced new product shipments.

The domestic financial sector was given a morning boost by news that Deposit Guaranty would be acquired by First American Corporation in a $2.7bn deal. Shares of Deposit Guaranty surged more than 9 per cent to 57\frac{5}{16}$ while First American plunged 8 per cent to 50\frac{1}{4}$.

The overall banking sector was slightly higher as the Philadelphia Stock Exchange index of bank stocks rose 3.91 to 780.17.

TORONTO extended Friday's rally in spite of Wall Street's weakness, helped by an upsurge of buying in bank stocks. At midsession, the 300 composite index was 75.33 higher at 6,799.7.

Banks continued to post gains on hopes of lower interest rates. Bank of Nova Scotia was C$2 higher at C$67.90 while Royal Bank of Canada climbed C$1.45 to C$82. Canadian Imperial Bank of Commerce was 95 cents better at C$46.80.

Gold shares lost ground after Friday's bounce on firmer bullion prices.

MEXICO CITY struggled to hold on to early gains as an uncertain start on Wall Street and domestic political worries weighed on equities. At midday, the IPC index was just 1.74 higher at 5,111.9.

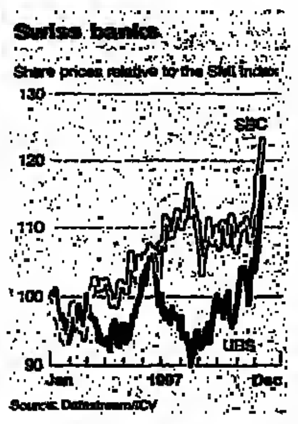
Analysts said buyers were staying away because of the dispute that erupted last week between congress and the administration over value-added tax, which threatens passage of the budget.

SAO PAULO rose on speculative buying ahead of Monday's options expiry. By midsession the Bovespa index had risen 103 to 10,183.

● Buenos Aires, Santiago, Lima and Caracas were closed for holidays.

Banks propel Zurich to peak

EUROPE



Confirmation of the long rumoured merger between Union Bank of Switzerland and Swiss Bank Corporation sent the shares of both groups up sharply and drove the **ZURICH** market to an all-time high.

UBS leapt 15 per cent early in the session and SBC jumped 8 per cent before consolidation and profit-taking dragged the shares back from their best levels. UBS closed SFr215 higher at SFr2,145 while SBC was SFr25 ahead at SFr472.50.

CS Group, meanwhile, picked up SFr3 to SFr220.50 as it said that the union of its arch rivals would increase competition but would not force it to find a partner of its own.

The SMI index rocketed up more than 2.6 per cent at one stage. By the close it stood 86.3 or 1.4 per cent higher at a record 6,095.3.

Insurers saw brisk demand as the day's events prompted renewed speculation that the sector might see acquisitions or mergers of its own.

Swiss Life, in which UBS holds a stake of around 25 per cent, jumped SFr97 to SFr1,127. Baloise, the mid-sized insurer long seen as a merger or acquisition candidate, was SFr84 higher at SFr2,720.

Milan and Madrid were closed for national holidays

FRANKFURT featured a sharp fall in Bilfinger and Berger, whose shares dropped to a two year low after an unexpected profits warning from the construction group brought at least two downgrades.

The announcement that the company was expecting a 1997 operating loss due to weakness in the domestic construction market and problems relating to several projects in Germany and abroad, sent the shares down DM8.10 to DM54.80.

The news brought downgraded recommendations from Commerzbank and UBS, which also cut their earnings per share estimates.

The broad market finished in the middle of the day's range as the benefits of an early boost from bank merger speculation were diluted by the dull early performance of Wall Street. The Xetra Dax index turned down from a high of 4,245.79 to close 16.33 ahead at 4,208.14.

Deutsche Bank, seen by analysts as having the most pressing need to find a partner, was DM4.55 higher at DM123.40. Dresdner Bank picked up DM5.80 to DM80.40 and Commerzbank was DM4.13 higher at DM67.

PARIS also also experienced an active session for banks. BNP bounced more than 4 per cent and Paribas and CCF rose more than 3 per cent. The CAC 40 index ended 22.38 higher at 2,932.47.

Société Générale was the busiest bank, adding FFr19.00 to FFr825 in FFr624m of turnover on speculation about sector consolidation plus the news that SocGen may buy a capital management arm of Yamaichi Securities of Japan. CCF gained FFr11 to FFr400, Paribas FFr17 to FFr461.5 and Cie Bancaire FFr26 to FFr941.

Deals speculation also got behind retailers. Promodès rose FFr44.00 to FFr2,329 following Friday's FFr5.5bn Italian purchase plus the news that the retail giant was poised to buy the French Cattean chain from Tesco of the UK. Pinault-Printemps added FFr38 to FFr3,159 and Carrefour FFr44 at FFr3,064.

AMSTERDAM made modest progress with the AEX index adding 5.97 at 926.47 after another session of narrow trading.

KLM jumped Fl 2.20 to Fl 76.30 following news of an alliance with Alitalia of Italy plus upbeat traffic figures for November and Hoogovens gained Fl 1.70 to Fl 96 after talk linked the steelmaker's name with Cockerill Sambre of Belgium. Philips were also a good market, adding Fl 3.50 to Fl 136.60. Smaller caps saw brewer Grolsch slip Fl 1.50 to Fl 48 on news of production delays.

BRUSSELS was gripped by takeover talk after a weekend news report claimed that steelmaker Cockerill Sambre was close to a merger with a European rival. Cockerill shares leaped BFr12 to BFr184 on the report, which claimed the group was considering four potential partners – British Steel, Usinor of France, the Dutch Hoogovens and Riva of Italy. Cockerill has been seen as a target for some time. The company admitted last month that it was considering alliances to help it survive in the competitive European steel industry. However, investors were surprised that a deal was apparently so close to fruition. Cockerill denied that any talks had taken place.

Helped also by a surge in chemicals giant Solvay, BFr50 higher at BFr2,400, just below its year peak of BFr2,418, the Bel-20 index ended up 8.00 at 2,511.74.

COPENHAGEN reached another all-time high to make three successive record-breaking sessions. The KFX index gained 2.21 to end at 203.13.

Banks were again the main winners, helped by excitement surrounding the Swiss merger. Unidanmark ended DKr10 higher at DKr500, while BG Bank added DKr8 at DKr490.

BUDAPEST posted gains on continuing talk that foreign investors were dipping their toes back into the market. The BUX index ended 130.75 higher at 7,400.77. Telecommunications giant Matav was again in favour, with the shares ending Ft28 higher at Ft910.

Written and edited by Michael Morgan, Jeffrey Brown, Jonathan Ford and Peter Hall.

FTSE Actuaries Share Indices — European series

December 8

National & Regional Markets	Ecu index	Day's %	change points	Yield gross %	xd adj	Total rtn (Ecu)
FTSE Eurotop 300	987.69	+0.68	+6.50	2.27	0.18	994.73
FTSE Eurotop 100	2284.28	+0.85	+19.17	-	-	-
FTSE Eurotop 300 Regions						
300 UK	1004.90	+0.74	+7.40	3.14	0.45	1020.33
300 Ex-UK	978.47	+0.62	+5.99	1.77	0.03	980.82
300 Eurobloc	965.96	+0.58	+5.53	1.56	0.05	968.43
300 Ex-Eurobloc	1004.06	+0.72	+7.15	2.48	0.28	1013.71
FTSE Eurotop 300 Economic Groups						
Resources	947.30	+1.38	+12.93	2.69	0.80	950.48
General Industries	937.22	+0.12	+1.13	2.10	0.04	938.48
Consumer Goods	978.55	+0.57	+5.51	1.86	0.23	989.07
Services	998.34	-0.34	-3.37	2.22	0.00	1005.17
Utilities	1017.50	-0.20	-2.06	2.94	0.37	1025.55
Financials	1030.36	+1.56	+15.82	2.23	0.35	1035.91

S Africa golds gain 1.8%

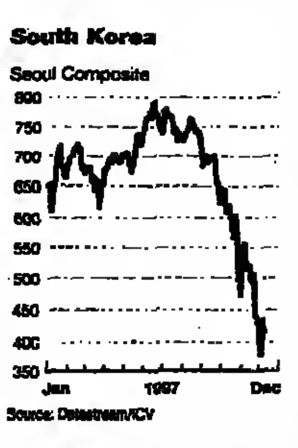
Johannesburg was flat overall, constrained by futures and a reluctance by investors to play the market. Golds, however, were encouraged by a slightly higher bullion price and the index closed 11.8 or 1.8 per cent higher at 681.9.

The overall index lost 4.0 to 6,156.1 and industrials gave up 25.2 at 7,438.3.

JCI, whose board meets today, picked up 75 cents at R24.75 on speculation that Britain's Lonrho would launch a takeover at a premium to the current share price. Lonrho confirmed after the market closed that it was in bid talks to acquire JCI and said that shareholders would be notified of developments.

Pessimistic Seoul slumps 4.8%

ASIA PACIFIC



Concerns about further corporate and banking failures, triggered by sharply rising interest rates and a weakening currency, sent **SEOUL** down 4.8 per cent.

The optimism engendered by last week's IMF bailout evaporated at the weekend with the collapse of Coryo Securities, South Korea's eighth largest brokerage, and the Halla engineering conglomerate.

Halla's collapse, South Korea's 12th largest corporate failure, again raised concerns about the health of the financial sector.

Seoul Bank and Korea First Bank, both heavily exposed to Halla's debt, requested capital injections from the government to boost their capital ratios. Seoul Bank rose Won120 to Won1,670 and Korea First Won160 to Won2,260 after it said the state was "considering" its request.

The composite index finished 20.90 lower at 414.83.

BANGKOK, by contrast, rebounded nearly 4 per cent as confidence returned after the government decided to close all but two of the 58 troubled finance companies suspended during the summer. The SET index closed 13.03 higher at 401.8.

TOKYO was subdued and the Nikkei 225 Average moved within a relatively narrow range before closing 1.8 per cent lower, *writes Michiyo Nakamoto in Tokyo.*

The index slipped 292.91 to 16,131.57, reflecting caution ahead of proposals due later in the week from the ruling party to stabilise the financial system. The index hit a high of 16,515.68 and a low of 16,110.29. Trade was also said to be subdued ahead of the government's economic stimulus package, due next week, while lower futures prices were another dampening influence.

Turnover was 430m shares. The capital-weighted Nikkei 300 index dropped 3.35 to 242.95 while the Topix index declined 15.12 to 1,221.31. Losers outnumbered gainers at 814 against 261 with 189 issues were unchanged. The OSE index dropped 270.54 to 16,351.04 amid sluggish trading.

In London, the ISE-Nikkei 50 index rose 0.74 to 1,513.06.

Attention was focused on sectors likely to be hurt by the slowdown of the domestic economy. Steels suffered a 7 per cent decline. NKK and Kawasaki Steel both lost more than 20 per cent, falling to Y114 and Y176. Nippon Steel fell below Y200 for the first time since 1987 in heavy trading. It was the third most active issue and closed down Y18 at Y201.

Financial issues also continued their gloomy descent. The failed Hokkaido Takushoku Bank was the most actively traded issue losing half its value to Y1.

Yasuda Trust Bank, one of the weaker members of the Fuyo group of companies to which the collapsed Yamaichi Securities belongs, was second most actively traded. Despite persistent concerns about future prospects, investors came back to buy the shares which had been heavily sold, and the price rose Y12 to Y143.

HONG KONG's Hang Seng index traded above 11,800 for the first time since October 22 but late profit-taking trimmed gains and left the market 1.7 per cent higher.

The blue-chip index jumped 195.34 to finish at 11,722.94 after touching a high of 11,842.73. Property stocks found support in the wake of a positive outcome to the weekend sale of new residential properties by Sun Hung Kai Properties. SHK rose HK$2.25 to HK$64.25.

SINGAPORE rallied 2.3 per cent as Kuala Lumpur's performance gave a strong boost to sentiment. The Straits Times Industrials index rose 39.86 to 1,753.63.

Bank stocks, still popular with institutional investors, closed mixed with United Overseas Bank foreign ending 60 cents higher at S$11.30 and Overseas Union Bank foreign 15 cents lower at S$6.85.

Hungary

Elections next May could set the seal on a transformation of Hungary's fortunes – and decide who leads the country into Nato and the EU. Anthony Robinson reports

Revitalised and raring to go

Hungary has already won its place among the front runners for early Nato and European Union membership. This subtle central European country with its impenetrable language could well be the first through the doors in Brussels. But perseverance will be needed with social and economic reforms which have transformed its prospects over the past three years.

In several key areas the 10.3m Hungarians enter EU negotiations better placed than either the Czech republic, which only now is facing up to the need for deep structural reforms, or Poland – where Roman Catholic nationalists in the new Solidarity coalition have yet to prove their commitment to modernisation and EU membership.

Hungary's favourable situation is the result of a remarkable turnaround since early 1995 when it faced a Mexican-style debt crisis. It now approaches the end of 1997 with the strongest economic fundamentals of any post-communist country in the region.

The clearest indicator of improvement is the near halving of net foreign debt, much of it inherited from the Soviet era, from $18.9bn in 1994 to $10.9bn at the end of August this year. Another is a sharp improvement in the economy's underlying competitive position reflected in a 40 per cent rise in exports over the first nine months of this year, against a 23 per cent rise in imports.

Enhanced competitivity is the result of three years of disciplined fiscal and monetary policy reinforced by large-scale cash privatisation, heavy foreign direct and portfolio investment, and a 15 per cent cut in real incomes between 1995 and 1997. It is also the result of close co-operation between the finance ministry and one of the most skilled central banks in Europe.

Successive finance ministers, strongly backed by Gyula Horn, the prime minister, kept government spending and borrowing down while Gyorgy Suranyi, the president of Hungary's independent central bank, repaid foreign debt early and renegotiated tighter terms on remaining debt.

At the same time, the central bank imposed positive real interest rates to encourage domestic savings and tightened supervision of the banking system. It also prevented excessive, Czech-style currency appreciation by regular monthly crawling peg devaluations of the forint.

The combination of fiscal and monetary rectitude and large-scale privatisation stabilised the economy, cut the public sector deficit from 9.6 per cent of GDP in 1995 to about 4 per cent this year and reduced inflation by 5 percentage points annually to the current 18 per cent annual rate.

Renewed confidence in the country's economic management and political stability attracted an unprecedented inflow of private foreign capital.

Andras Inotai, a senior academic adviser to the government, calculates that Hungary gained $20bn in foreign direct investment over the past seven years, mostly over the past three. His estimate includes up to $3bn of profits reinvested by the 50 top multinationals and other foreign companies doing business there.

Higher industrial production from new, state-of-the-art factories has been accompanied by double-digit labour productivity growth, creating a strong platform for non-inflationary wage and salary increases. These are now coming through – just in time to give many voters the "feel-good" factor before next May's general elections.

Not everyone is impressed, however. The economic recovery has been heavily concentrated on the Budapest area and the western half of the country. This is good news for industrial towns such as Szentgottard and Györ, close to the Austrian border. It has also brought new prosperity to the huge new industrial estates such as that on a former Soviet military air base at Szekesfebervar, 65km south-west of the capital.

But enthusiasm for foreign capital declines away from the western cities, in the traditional rural areas and small towns where the populist Smallholders party has its power base and support for Nato and EU entry is weakest.

This east-west split is accompanied by widening income differentials between the well-educated young, especially those with foreign languages and adaptable skills, and the formerly well-paid bureaucrats and employees in the education, health and other services. Opinion polls also reveal a groundswell of resentment against perceived widespread corruption.

More than 2.5m pensioners, many of them dependent on their inflation-savaged pay-outs, feel particularly aggrieved. Pension reform, one of the bravest initiatives of the coalition government, will also inevitably cut into the incomes of younger workers. They will be building up their new funded pensions while contributing to the former pay-as-you-go system which will take a generation to phase out.

Overdue reform of the financially stressed health system remains to be tackled after the elections.

And yet... despite the grievances and the incurable melancholic pessimism of many Hungarians, there is a palpable sense of optimism that the economy is getting better and living standards are at last starting to rise again.

Foreign perceptions are also changing. The stock exchange, after a two-year bull run, brushed aside nervous tremors emanating from Asia, while Hungary has also won Nato's confidence by acting as a reliable staging post for operations in Bosnia and by improving bilateral relations with its many neighbours through quiet diplomacy.

Last month, Hungary became the only aspirant Nato member to submit entry to a popular referendum. The vote was the legacy of earlier times, demanded by a Socialist party in opposition when it was much closer to its old Soviet-era attitudes.

Within a year of the party's return to power in the 1994 elections, however, the need for US support to avert impending economic disaster and Washington's crucial role in halting the war in Bosnia had already persuaded Socialist leaders, and many others, that Hungary's future security was inextricably linked to membership of both Nato and the EU.

To Mr Horn's relief, nearly half the population turned out and 85 per cent of those voted in favour. With general elections due in May next year the result was also encouraging for the Socialist party. It won 52 per cent of the seats in 1994 against a divided and demoralised opposition, but was reluctant to take on the responsibility of power alone while memories of the communist past were so fresh.

To broaden support, the socialists offered a coalition partnership to the liberal Free Democrats. The FD reluctantly accepted the offer. This gave Hungary a stable coalition government with 72 per cent of parliamentary seats, but left the FD uncomfortably aware that it had assumed more responsibility than power.

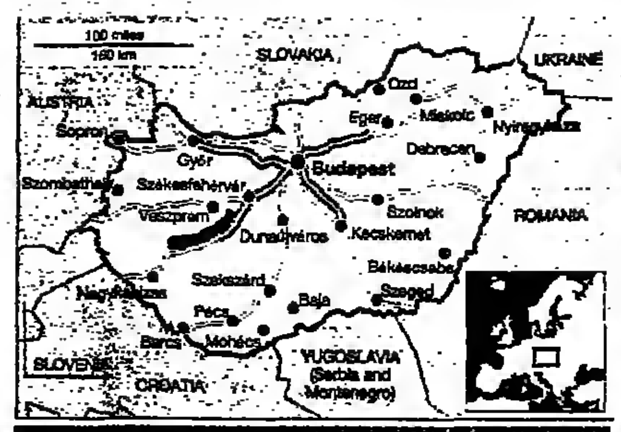
The political wisdom of the Free Democrats' choice will be tested in May when the coalition parties will fight the election separately. They will also compete with a plethora of opposition parties, of whom the most significant are the Young Democrats (Fidesz) and the Smallholders party.

The outcome will depend on whether voters decide to punish the coalition parties for three years of lower living standards and painful economic and social reforms – or reward them for leading Hungary bravely through difficult times to future prosperity and security.

Mr Horn, a veteran former Stalinist who progressed seamlessly through reform communism to social democracy, is too shrewd a political fox to expect gratitude. Instead, he is visiting hospitals and building up other traditional constituencies in the public sector and promising more funds for education, health and pensioners. He is simultaneously reassuring the middle classes that, if re-elected, the socialists will guarantee the continuation of reforms designed to underpin the economy and modernise the state.

Mr Horn, still spritely at 65 years old, sports a wicked grin and a capacity to sideline potential rivals reminiscent of the late Leonid Brezhnev. He exudes cautious confidence and clearly wants both to win and to continue leading the country.

In an interview he explained why. "The next five years will be a period of decisive importance for the fate of the country. Everything will be decided in this period – including Nato and EU entry. Everything else will be built on this foundation."



Constitution

- **Official name**: Hungarian Republic
- **Form of state**: Multiparty Republic
- **Legal system**: Based on constitution of October 1989
- **National legislature**: Unicameral parliament of 386 members, of whom 176 are elected from single-member constituencies, 152 from county lists and 58 from a national list. Constitutionally, supreme power is vested in parliament. The Constitutional Court has powers to overturn parliamentary decisions and governmental decrees deemed contradictory to the constitution
- **Electoral system**: Universal direct suffrage over age 18
- **National elections**: Last elections May 8 and May 29 1994; next elections due by May 1998
- **Head of state**: Arpad Goncz (re-elected by parliament on June 19 1995)
- **National government**: Council of Ministers, headed by the prime minister, responsible to parliament. A new government took office on July 15 1994. The prime minister, Gyula Horn, leads a coalition of the HSP and AFD. Last reshuffle: February 1995
- **Main political parties**: Hungarian Socialist Party (HSP); Alliance of Free Democrats (AFD); Smallholders' Party (SP); Hungarian Democratic Forum (HDF); Hungarian Democratic People's Party (HDPP); Alliance of Young Democrats-Hungarian Civic Party (Fidesz-HCP); Christian Democratic People's Party (CDPP); Hungarian Justice and Life Party (HJLP)

Source: EIU

- Area: 93,030 sq km
- Population: 10.3 million (1997 estimate)
- Language: Hungarian
- Currency: Forint (Ft)
- Exchange rate: 1996 av $1 = Ft152.55; December 3 1997 $1 = Ft200.27

Main towns and population (1994)

Budapest (capital)	1,995,696
Debrecen	217,706
Miskolc	189,655
Szeged	178,876
Pécs	172,177

Economic summary

	1997 Forecast	1998 Forecast
Total GDP ($bn)	43.0	45.3
Real GDP growth (annual % change)	3.0	4.4
GDP per head ($)	4,240	4,471
Inflation (annual % change in CPI)	18.2	16.0
Industrial production (annual % change)	7.0	8.0
Unemployment rate (% of workforce)	9.9	9.8
Money supply, M2 (annual % change)	17.0	14.0
Foreign exchange reserves ($bn)	9.8	9.0
Budget balance (% of GDP)	-4.5	-4.5
Total foreign debt (% of GDP)	62.1	60.9
Current account balance ($bn)	-1.82	-1.96
Merchandise exports ($bn)	16.29	18.44
Merchandise imports ($bn)	18.29	21.45
Trade balance ($bn)	-3.00	-3.01

Main trading partners (share of total trade to world, 1996)

	Exports	Imports
EU	62.8%	59.8%
of which Germany	29.0%	23.8%
Austria	10.6%	9.5%
Former Soviet Union	8.6%	14.9%

IN THIS SURVEY

Production editor: Philip Sanders

THE ECONOMY • by Anthony Robinson

Strong fundamentals helped markets to survive

Hungary's relative resilience served to underline the extraordinary improvement

Strong economic fundamentals ensured that Hungarian financial markets survived the tidal wave from south-east Asia last month with the briefest of blips. Share prices on the Budapest stock exchange shed 22 per cent in a couple of days in mid-November but quickly regained much of their loss.

At the same time, general nervousness about emerging markets pared the offer price of national telecommunications operator Matav's Budapest and New York share offer down to the minimum of the projected range when trading started on November 14.

The stock market correction after a powerful two-year bull run was expected, if not overdue, and the important thing about the Matav issue was that it continued as planned. The 25 per cent foreign and domestic offering of the telephone company's shares was not dropped at the last moment. It did not share the fate of similar planned offerings by Pliva the Croatian pharmaceuticals company, or Bonton, the Czech entertainments group, or a slew of putative Russian bond issues which were called off until better times.

Hungary's relative resilience in the face of global financial nervousness served to underline how far the extraordinary improvement in the the country's financial and economic fundamentals over the past three years has been taken on board by international investors.

Heavy investment by foreign multinationals in new and mainly export-orientated factories has created new industries such as vehicle assembly and components manufacture and revitalised existing sectors such as electronics. This has led to a strong rise in industrial output and a surge in exports which rose 40 per cent to more than $14bn in the first nine months of the year.

Surging exports and rising investment kept the overall economy growing despite the three-year contraction in real incomes and domestic spending. With domestic demand starting to rise on recovering real incomes, the economy is now expected to produce GDP growth of 4-5 per cent this year – well above the 3 per cent forecast at the start of the year.

Double-digit labour productivity gains mean that steady non-inflationary growth should be sustainable for the foreseeable future, given a degree of wage discipline and continuing tight macroeconomic governance.

The public sector deficit has fallen from 9.6 per cent of GDP in 1995 to just over 4 per cent in 1997, and a further decline is projected in the 1998 budget. Inflation has also fallen steadily to an annual rate of about 18 per cent from 23 per cent last year. Consumer prices are targeted to continue falling 5 percentage points annually over the next three years.

Higher labour productivity and falling unit costs underline how far stabilisation of the domestic economy, the diversion of resources from consumption to export and rapid cash privatisation created the pre-conditions for substantial microeconomic restructuring of banks and enterprises.

The banking system in particular has benefited from the influx of foreign owners and managers which also made possible the restructuring of many former state-owned enterprises and the establishment of new export-orientated industrial sectors.

An estimated 75 per cent of GDP is now produced by the private sector compared to 30-35 per cent in 1989. The 1989 figure was relatively high at the time and reflected both the importance of the "grey economy" in this traditionally highly taxed country and Hungary's early experimentation with market-orientated reforms at the enterprise level. This created a pool of entrepreneurial talent to draw on when the transition to a real market system began.

Critics of Hungarian economic policy argue that the government has concentrated too much on attracting foreign investment and not enough on creating the environment for a Polish-style explosion of native entrepreneurial talent. This is largely a reflection of the high corporate taxes and social charges which encourage tax evasion and growth of the grey economy, especially in the service sector. The grey economy contributes as much as 30 per cent of national output, according to some estimates, casting doubt on the value of all official statistics.

The need to reduce the incentive to stay underground by cutting the burden on legitimate enterprises and employers is one of the driving forces behind reform of the pension system. The new structure will put increasing emphasis on the fully-funded element and cut the government subsidy. Health service reform is next on the agenda. Meanwhile, the central bank notes that revenues actually increased when corporate tax rates were recently cut from 30 to 18 per cent of profits.

The availability of competent Hungarian managers and skilled labour is often cited by foreign investors as one of the attractions of investing in Hungary and most foreign companies are mainly managed by Hungarians. They make a powerful contribution to Hungary's economic recovery. An estimated 14 per cent of GDP is now produced by foreign-owned companies, including the leading banks and several utilities.

The impact is even greater in the export sector where more than 70 per cent of rapidly rising exports issue from brand new foreign-owned factories, often working round the clock with state-of-the-art plant and machinery.

Policy makers supported the export drive by avoiding the Czech mistake of allowing the erosion of competitive cushions such as relatively low wages and an undervalued exchange rate. Average real wages declined by 15 per cent between 1995-97 while excessive currency appreciation was prevented by regular downward-crawling peg adjustments to the forint exchange rate. In this way, some of the the advantage gained by the one-off devaluation of the forint early in 1995 has been retained. The central bank runs a positive real interest rate policy to encourage savings and clarify the real costs of borrowing and investment.

With elections looming next May, the government has promised higher spending on health and pensions and is unlikely to do much to rein back an expected 4-5 per cent rise in real wages next year. But with labour productivity rising in double digits for the third year running, Hungarian exports should remain competitive although imports will rise.

BANKING • by Anthony Robinson

Ugly duckling has taken off

The reorganised banks collectively recorded a 45 per cent rise in post-tax profits

The transformation of the Hungarian banking system from state-owned ugly duckling to privatised swan ranks as one of the fastest turnaround stories in the central European transition.

Just three years ago, the government was completing a bail-out of the state-owned banks which cost the equivalent of 7 per cent of gross domestic product.

"We had to do it to avoid a systemic collapse of the banking system. But it did not solve the problems of bad corporate governance or moral hazard," recalls Gyorgy Suranyi, president of the National Bank of Hungary. That experience strengthened the band of reformers who argued that the main state banks should be privatised, including the state savings bank (OTP) and the commercial banks carved out of the National Bank at the start of the reform process.

Privatisation began with the sale of a strategic stake in Magyar Kulkereskedelmi Bank (MKB), the foreign trade bank, to Bayerische Landesbank and the EBRD in 1994. Budapest Bank was then bought by GE Capital while Magyar Hitel Bank was bought and renamed by ABN Amro.

In November this year, the government completed the last stage of the sale of OTP, Hungary's largest bank, although Postabank remains indirectly state-owned through the shareholdings of the main social security bodies and the post office.

The OTP saga illustrates how perspectives on Hungarian banks have changed. In July 1995 foreign and local institutional investors paid $90m for a 33.4 per cent stake in the bank through an international private placement and a domestic offering. But on October 28 this year, the state received $313m for the Privatisation Agency's remaining 25 per cent stake.

The institutional offer was five times over-subscribed while the domestic retail offer was 3.9 times oversubscribed and had to be increased by clawing back more than 600,000 shares initially offered at more than $30 a share or global depository receipt to foreign investors.

The re-rating of OTP took place even though the bank's overwhelming share of the retail savings market and municipal lending is expected to come under increasing competitive attack from the foreign-owned banks who are aggressively seeking new business and have invested much more in new equipment and training.

Problems also remain with Postabank, which suffered a crisis of confidence and a serious run in February, and is being nursed temporarily by the Privatisation Agency.

But the state, which dominated the banking system three years ago, now only retains a majority stake in two specialist banks, the Hungarian Development Bank and Eximbank.

The transformation of the banking system strikes the eye in the form of elegantly refurbished head offices, marble banking halls and neon signs offering 24-hour banking. Automatic Telling Machines (ATMs) seem to lurk on every city street corner.

Progress can be gauged more accurately by the balance sheets of the heavily

Gyorgy Suranyi: 'Privatising the banks is the best way of getting rid of the moral hazard problem'

recapitalised and reorganised banks which collectively recorded a 45 per cent rise in post-tax profits last year, to Ft67bn, about $40m at the 1996 exchange rate.

Prospects for this year look brighter still against the background of an economy growing at 4-5 per cent, declining inflation and rising real incomes. Banks are seeing higher savings and deposits and a strong rise in demand for corporate and retail lending. But fierce competition among the country's 41 banks is driving down margins, sharply reducing spreads between deposit and lending rates, and pointing the way to a future wave of small-bank closures or mergers as the industry consolidates around fewer, but stronger banks.

Higher investment and strongly rising industrial production led to a 20 per cent rise in domestic lending over the first half of this year, of which the central bank estimates 13 per cent was new borrowing. The remainder is accounted for by corporate borrowers switching from foreign to cheaper forint borrowing.

The average spread in the highly competitive corporate sector is now down to 3 per cent, compared to 7-8 per cent two years ago.

Spreads in the retail lending sector, still virtually uncharted territory for both banks and their customers 12 months ago, remain at much higher levels. But strong competition in the growing market for vehicle, consumer durable, housing and other loans is expected to whittle away the current 7-8 per cent spreads on consumer credits.

The central bank plays a key role in driving forward bank modernisation by encouraging the competition which is cutting spreads and making sure that interest rates remain positive in real terms, although actual rates have been following inflation downwards.

The central bank has also helped to trim the cost of money by cutting its compulsory deposit requirement from 17 to 12 per cent of deposits, still high by west european standards.

With well over 50 per cent of Hungarian bank assets now controlled by foreign-owned banks, of which 19 are wholly foreign-owned, Hungarian banks are operating in close to a "normal" European banking ethos and are offering increasingly sophisticated services.

Most of the foreign-owned, but mainly Hungarian-managed, banks were recapitalised after their acquisition and have spent heavily on staff training and new information technology systems. Last year, foreigners spent Ft39bn buying Hungarian banks and a further Ft60bn on recapitalising them or starting new operations.

"The most important lesson from the Hungarian experience is that privatising the banks is the best way of getting rid of the moral hazard problem," says Mr Suranyi. But he also believes that the influx of foreign owners and the introduction of competitive, modern banking services has removed a potential stumbling block on the road to EU entry.

"The selling process was linked to additional capital increases, a further strengthening of the banks' capital base and a new style of corporate management. From next year, foreign banks will also be free to open branches here. This means that Hungary has effectively pre-empted the EU requirement to open up the domestic market. Potential foreign competitors are already here and operating as Hungarian banks."

PRIVATISATION AND FOREIGN INVESTMENT • by Anthony Robinson

Greenfield projects play a key role

Investment has given new life to existing sectors and created new enterprises

When the government opted for a policy of rapid privatisation in 1995 it went for the quickest and simplest method to obtain what it needed most – cash sales to strategic investors.

Since then, banks, industrial enterprises, power stations, water, sewerage and other utilities including telecoms, have all fallen under the hammer. Their sale accounts for more than $5bn of the $17bn-$18bn in foreign direct investment which has flowed into Hungary over the past seven years.

The cash helped to plug holes in the state budget and repay before schedule some $3bn of foreign debt. But up-front cash, useful though it was, is only part of the story, argues Andras Inotai, the prime minister's special adviser on economic matters and head of the government's task force on European integration.

Sales to strategic investors brought in new management and access to new technology and foreign markets. The decision to offer large chunks of power and water utilities as well as telecoms to foreign buyers remains unprecedented in the region. It has provided a unique opportunity to replace obsolete, polluting equipment with state-of-the-art combined-cycle gas turbine power generators and new gas, water, sewerage and power lines, as well as telephones, which the cash-strapped state and municipalities would have been simply unable to finance.

The country's retail system is also undergoing a revolution as foreign retailers and hypermarket chains, including Marks and Spencer and Tesco from the UK, invest heavily in new city-centre stores, suburban shopping malls and entertainment complexes.

The influx of fresh capital to replace worn-out assets, and the transformation of former state-owned banks and enterprises from serious loss-makers into tax-payers, has helped to raise tax revenues and employment.

Professor Inotai argues that the main benefit from the government's decision to privatise and open up the economy has come more from foreign investment in completely new and often export-orientated greenfield plants than in privatisation of former state or municipally-owned assets.

The inflow of greenfield investment has given new life to existing sectors such as electronics and pharmaceuticals and created entirely new industrial sectors such as motor car assembly and motor components. These are produced from new plants put up by US, European and Asian companies including General Motors, Ford, Suzuki and Audi, often operating on three shifts, 24 hours a day.

Plants set up by IBM, Philips and others came on stream after the summer holidays – producing a fresh surge in export-oriented industrial output that pushed the industrial production index up 19.7 per cent in September compared to the same month last year.

More than 70 per cent of Hungary's industrial exports now come from foreign-owned plants such as these. National Bank of Hungary figures show that exports on a payments basis in September jumped 37 per cent to $1,650m compared to the same month last year.

Imports also surged by 23 per cent, reflecting the high volume of imported components incorporated in the exports of the multinationals. But with stronger demand from German and other EU markets, and signs of recovery in Russia, exports have kept ahead of the increase in imports, although imports are expected to grow faster next year as higher incomes suck in more consumer goods.

The nine-months figures, which show a 40 per cent rise in exports to $14.15bn from $10.1bn in the first three quarters of 1996, clearly indicate that the September production figures were not a one-off, post-holiday surge but part of a secular upward shift in Hungary's export-orientated industrial capacity and competitiveness which is directly linked to foreign investment.

PROFILE OF A FOREIGN INVESTOR **Philips**

One of the first companies to throw a lifeline

Few sectors of protected socialist industry suffered more painfully from exposure to world competition than electronics when the Soviet system collapsed.

The Hungarian industry was no exception. Virtually overnight, state-owned electronics groups such as Videoton were revealed as hopelessly obsolete.

But what looked like impending disaster seven years ago has become a big competitive advantage for Hungary over the past few years as foreign multinationals have moved in to offer new jobs to the large pool of trained electronics workers.

The Eindhoven-based Philips group, along with General Electric of the US which took over the Tungsram lighting company, was one of the first western companies to throw a lifeline to towns such as Szekesfehervar, south-west of Budapest.

Until 1989, the town's economic life revolved around Videoton, a large Ikarus bus plant, the Hungaln aluminium plant and a sprawling Soviet air base.

Over the past five years, that airbase has been converted into an industrial park with big new foreign-owned assembly plants springing up like mushrooms after rain.

Meanwhile, Videoton has found a new lease of life as a sub-contractor to the multinationals and the aluminium plant has been taken over and modernised by Alcoa. The bus plant is still up for sale.

Philips originally thought of buying Videoton. Those plans ran into the sand but the company did set up production of semi-finished parts and components for video cassette recorders (VCRs) in a former Videoton plant in 1990 before opting to make the first of several greenfield investments, a plant to assembly VCRs, two years later. Since then, Philips has built 12 production facilities in the country.

The latest is Philips Bundling, a greenfield plant at Szekesfehervar, which has become the sole European production and distribution centre for Philips VCRs and TV-Video combis – television sets with a built-in video player.

The Dutch group shifted production from plants in Nuremberg and Vienna to the new factory.

In total, Philips invested $78m in Hungary in the seven years up to 1996. It created 5,200 new direct jobs in the process and established Philips as one of Hungary's largest exporters. "Over 99 per cent of our production is exported," says Willem van der Vegt, the chairman and chief executive officer of Philips Hungary.

The Philips television and VCR plant at Szekesfehervar, south-west of Budapest *Pictures: Victor Musat*

In 1996, the company's Hungarian plants exported electronic consumer goods and components worth $385m. But over the two years to the end of 1998 the group expects exports to soar to $2.3bn, although this includes the re-export of components previously imported from other Philips plants and suppliers outside Hungary.

The company's impact on the balance of payments started to come clear this autumn when the new Szekesfehervar plant started churning out video combis for the entire European market.

In the current two-year period to the end of 1998, Philips is investing a further $63m in its Hungarian operations and creating another 600 jobs. At the same time, the sale of Philips products on the Hungarian market, including goods imported from Philips Pola lighting in Poland and plants elsewhere in the region, is expected to rise from a modest $55m in 1996 to $165m.

Unlike Philips investment in Poland, which was primarily driven by the attraction of a 39m-strong domestic market, as large as Spain, the company has invested in Hungary primarily as a low-cost production base.

It now makes products which would probably have been made in south-east Asia had the cold war not ended, Mr von der Vegt, says.

This export-orientation, common to many foreign investors in Hungary, means that Philips, like other international companies, has not been downcast by the 30 months of domestic austerity during which spending power fell sharply.

On the contrary, new jobs and rising exports from plants such as these helped to sustain both employment and growth in the recession and create an investment and export-led turnaround.

But looking further ahead, Mr van der Vegt notes that companies such as Philips are expanding into east and central Europe precisely to break out of relatively mature markets in western Europe.

"We see a big and as yet unexploited potential for growth between member countries of the Central European Free Trade Area. Their trade collapsed after Comecon disintegrated and they had no foreign currency to replace the transferable rouble. But Cefta countries make up a market of over 100m people and Cefta already helps us trade more easily between Philips plant in various member countries.

"That is where the growth lies," he adds.

Anthony Robinson

FOREIGN AND SECURITY POLICY • by Anatol Lieven

The focus is now on accession to the EU and Nato

Hungary's international position looks stable, secure - and hopeful

Hungarian foreign and security policy is now dominated by the process of accession to Nato and the European Union.

The invitation to Hungary to join Nato in 1999, made at the Madrid summit in July, was presented to the Hungarian public as one of the most important in all its history.

While Nato membership is now a virtual certainty, joining the EU is going to be a much longer and more complicated process. As in the case of previous EU applicants, the changes that Hungary will need to make in order to join will cause fear and anger in some sections of the population, especially the farmers.

This is particularly the case since many subsidies from the Common Agricultural Policy (CAP) and the structural funds look set to diminish drastically in the coming years.

The decision to join Nato was confirmed by a referendum in November, in which 85 per cent voted in favour of membership, though on a turnout of only 49 per cent.

The government used the low turnout as a backhanded way of arguing that Hungary had already become a western country, pointing to very low participation in referendums in the West.

It encouraged a "yes" vote by playing down the costs of membership, and in particular, by delaying a highly controversial decision on whether to buy new western fighter aircraft at a cost of $1.5bn or more.

In July, the European Commission recommended that the EU include Hungary among the first five countries with which to begin accession negotiations. The Hungarians believe, perhaps optimistically, that it will be possible to join the Union as early as 2002.

The Nato and EU negotiations have also improved Hungary's position in its own neighbourhood. Contacts between Hungary and several of her neighbours have long been bedevilled by mutual resentment, but in the case of Romania, at least, relations have got markedly better over the past year.

A key reason for this has been the desire of both Hungarians and Romanians to join western institutions, and therefore to act in ways that will win western approval.

Leaders of both the Hungarian government and the moderate opposition have argued that one reason why Hungary must press for its neighbours to join Nato and the EU is that this would be the best way to overcome regional divisions, both at the official and human level.

Gyula Horn, the prime minister, said: "It was very important that Nato did not slam the door in the face of Romania and other applicants. We greatly appreciate this, and we hope that the EU will echo it."

Hungarian officials also worry that if Hungary was to adopt EU border controls this would tend to isolate it from Hungarian minorities in neighbouring countries, unless those countries are also within the western community.

The Romanian administration of President Emil Constantinescu has pleased Budapest by inviting the Hungarian-Romanian party, the UDMR, into coalition, and has made significant concessions on the use of the Hungarian language in education and administration.

But there are tensions between the Hungarian government and radical Hungarian politicians in Romania who accuse Budapest of ignoring the real interests of the Hungarian minority out of an exaggerated desire to please the West.

With Slovakia on the other hand, official relations are extremely cool. In September, a furious public row erupted after Slovak President Vladimir Meciar talked loosely about the voluntary repatriation of Hungarians living in Slovakia and Slovaks in Hungary.

Hungarians and Slovaks also remain at odds over the issue of the Gabcikovo Dam on the Danube. Two dams were to be built under a treaty signed by Hungary and the former Czechoslovakia in communist days, but in 1992 Hungary pulled out under intense pressure from ecological protest coloured by anti-Slovak nationalism.

The Slovaks went ahead and built their dam – and have continued to insist that the Hungarians fulfil their side of the agreement. Both sides agreed to refer the dispute to the International Court of Justice at The Hague.

Its ambiguous judgment, delivered in October, was that Hungary was at fault in pulling out of the treaty, but that Slovakia should not have gone ahead unilaterally.

Laszlo Kovacs, foreign minister, said:

"We considered the Hague verdict an honourable draw, but the Slovaks considered it a win."

Although negotiations are continuing with a view to meeting the Court's deadline of agreement within six months, at present there seems little chance of this.

Slovakia now looks very isolated internationally. Nato and the EU have both excluded Slovakia from their lists of early candidates for membership, citing a "democratic deficit", including the treatment of the Hungarian minority.

The weakness of Slovakia's position has allowed the Hungarian government to play a very cool and restrained hand. Compared to past years, Hungarian rhetoric against Slovakia has greatly diminished and Hungary's standing with the West has increased accordingly.

Hungarians remain concerned by the danger of a resumption of fighting in Bosnia, where Hungarian units are stationed with the multinational Nato Stabilisation Force (Sfor). The Sfor bases for US troops attached to that mission in southern Hungary have been both a security against the war spreading and a strong argument in the US Senate in favour of admitting Hungary to Nato.

Hungarian ministers are very anxious that western troops should not pull out of Bosnia when the Sfor mandate ends next July, and have been arguing strongly to that effect in Washington.

But this aside, Hungary's international position now looks exceptionally stable, secure and hopeful.

TELECOMMUNICATIONS • by Anatol Lieven and Anthony Robinson

Making impressive progress

Even after it loses its monopolies, Matav will be a formidable opponent

When Matav, the former state telecommnnicstions group, is listed on the Budapest stock exchange early next year it will boost the overall capitalisatioo of the exchange by almost 50 per cent overnight.

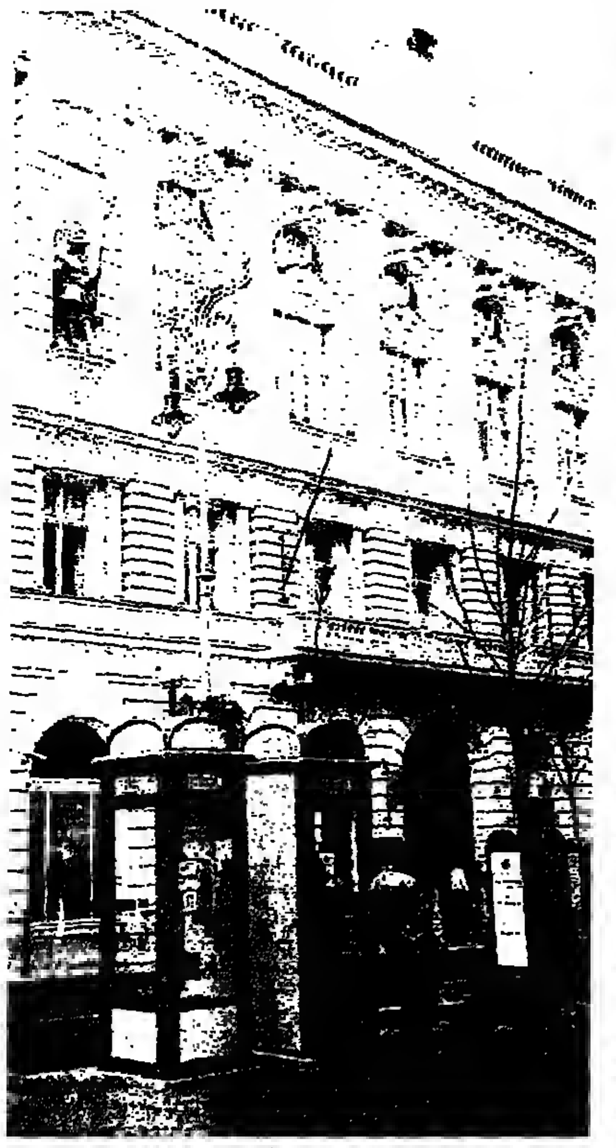
This is partly a reflection on the relatively small size of the exchange, but mainly of the $4bn value placed by foreign and domestic investors on Hungary's largest company.

Matav, which will retain its lucrative dual monopoly over international and domestic trunk calls until 2002, has already made significant improvements in service quality and profitability since it began moves towards privatisation lo December 1993. That was when the Magyarcom consortium, formed on a 50-50 basis by Ameritech of the US and Deutsche Telekom, acquired an initial 30 per cent stake in the former state monopoly. This was subsequently raised to 67 per cent in 1995.

Most of the remaining shares were held by the state privatisation agency, APV, until an initial public offering (IPO) last month wheo 25 per cent of the company's shares were sold to foreign and domestic investors. Some 17 per cent of the shares were sold by APV and a further 8 per cent by the Magyarcom partners, freeing capital for further investment and dropping their controlling stake from 67 to 59 per cent.

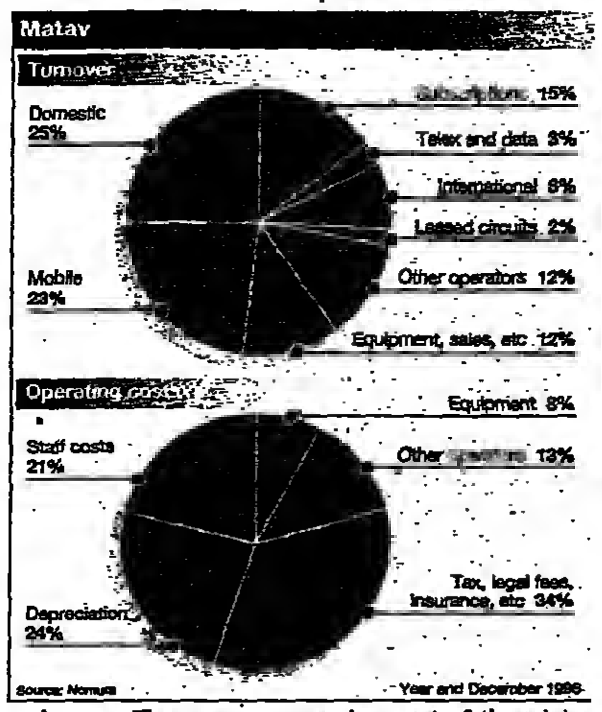
Progress since privatisation began has been impressive. Since launching its expansion and modernisation programme in 1993, Matav has become more "customer friendly" and increased the number of telephone lines from 1.3m tn 2.1m. The number of lines per 100 inhabitants has risen from 14 in 1993 to 30 in 1996.

At the same time, productivity has risen sharply, with the number of lines per employee up from 57 in 1995 to an estimated 163 this year. This is cumparable to the performance of telecoms companies in the poorer states of the European Union. With 68 per cent of the system digitalised, for example, Hungary is already ahead of Portugal in this key indicator of technological prowess. The Improvement of Hungary's communications infrastructure also has a wider significance by playing an important part in preparing Hungary for accession to the EU.



Improvements to the communications infrastructure are playing an important part in preparing Hungary for accession to the EU

The direction of capital investment is shifting away from basic infrastructure improvements and towards higher service quality and a greater range of services. The proportion of capital expenditure devoted to network infrastructure dropped from 76 per cent in 1996 to 63 per cent this year. From now on, growth in the number of lines will only keep pace with the growth of the gross domestic product (GDP). Matav will concentrate increasingly on value-added services snch as the Internet and electrnnic data exchange. The cnmpany already dominates the Hungarian mobile phone sector, among the fastest growing in Europe. Westel 900, the mobile phone company which is 45 per cent Matav-owned, earned a 34 per cent return on its invested capital last year. Partly because of the previous difficulty in gaining access to fixed-line telephones, Hungary now has more cellular phones per head of population than Belgium.



Matsv's shift to quality will be accompanied by continuing efforts to raise productivity and cut costs. By 2000 it expects to cut wage costs as a proportion of operating costs to 16.7 per cent from 25.7 per cent in 1995 – and to increase average revenue per employee to $110,000. The latter depends partly on the Hungarian trade unions remaining in their current rather quiescent state.

Meanwhile, the problems in Hungary's telecoms system are starting to reflect general European patterns rather than specifically Hungarian or post-communist ones. One of these is the continuing dispnts between Matav and the local telephone operating (LTO) companies, most of them internationally-owned, which between them run 700,000 of Hungary's phone lines.

The Association of LTOs has complained to the Hungarian competition office and the European Commission that Matav's interconnection fees are about three times the EU average. They have accused Matav of abusing its monopoly position and complain that the state, which set up a commission tn mediate nver the issne, has favoured Matav so as to sustain the attractiveness of tha company to potential investors ahead of November's IPO.

LTO representatives admit thst the privatissation of state telecoms companies in western Europe over the past 10 years has also been far from problem-free. There have been numerous accusations nf unfair profits and British Telecom, for example, only recently established a generally acceptable pricing structure.

After the year 2000, Matav's future becomes murkier. The monopoly on international and domestic trunk calls expires at the end of 2001 while the market for new land-lines and mobiles is expected to move towards saturation levels. This could well affect future profitability.

However, Nomura recently forecast annual earnings growth over the next five years of about 35 per cent in forint terms or 18 per cent in dollar terms. Higher earnings will be fuelled by s 9 per cent increase in lines and strong growth in mobile telephone operations.

Bnt stronger competition is already on the horizon. A new Hungarian telecoms consortium, MKM-Tel, was set up earlier this year by Hungarian railways (Mav) and the state nil company Mol. It will begin nffering business services from ths start of next year and will compete with Mstav across the board from 2002.

The new consortium also intends to concentrate on value-added services and promises to give Mstav a tough run for its money in the business services sector especlally. The MKM-Tel consortium plans to raise money through an equlty offering and add 2,697km of new line to the 728km of optical fibre cable already owned by MAV.

The government tiss encouraged the formation of MKM-Tel, because of EU competition requirements and also because the dominance of Matav had begum to cause concern. But the government faces some difficult decisions after being anxious not to do anything that might harm the attractiveness of Matav shares in the run-up to the IPO.

It has left open until now the question nf who will receive the future contract for government telecoms services worth about $82m a year. A decision will be required shortly.

Even after Matav loses its monopoly, however, it will still be a formidable opponent. In September, an international tender for a stake in MKM-Tel attracted only one bid, from the European telecoms group Unisource. This is an indication that Mstav is seen as a formidable operator and that potential competitors are thinking hard before tackling it on its home ground.

But business and private customers who have enjoyed steady improvements in the quality of service, but who complain at what many see as unjustifiably high prices, are hoping that the end of Matav's monopoly will inject further competition into what until now has been a relatively cosy environment for Hungary's main telecoms provider.

Budapest stock exchange: a different origin from other east European bourses Picture: Kester Eddy

THE STOCK EXCHANGE • by Anatol Lieven

Past few months have been bumpy

Analysts say they are not too worried by the turbulence from Asia

The past few months have seen a bumpy ride on the Budapest stock exchange after a strong first eight months when the Bux index rose 105 per cent. Share prices looked set to equal the 1996 record when they rose 130 per cent, the fastest growth on any exchange in the world.

But a correction in August led to s sharp fall in the index on the perception that amid general euphoria some shares had become overpriced. However, the real turbulence came in November as developments in Asia hit global stock markets. "The Bux was swung up and down like a yo-yo but the string was not here but in New York," a foreign analyst said.

The mood in Budapest is critically affected by the performance of the Dow Jones index and the behaviour of the US dollar, especially in relation to the D-Mark. Zsigmond Jarai, chairman of the stock exchange and director of M&H Bank, said that the steep and almost continuous rise of the index in the 18 months to August led to speculation by small domestic investors and some brokers.

"Unfortunately, there was not enough attention to fundamentals," he said. "Too many brokers didn't look st individual companies, but st Hungarian stocks in general. They all went up together and the market overheated. I hope it will now stabilise, and not go up so quickly again and restart speculation."

Hungarian officials and analysts say they are not too worried by the turbulence, pointing to the fundamental strength of the Hungarian economy and the strong balance sheets of many Hungarian companies. The fact that the forint was largely unscathed by the gyrations on the stock market was seen as another sign of underlying stability.

Nonetheless, there has been concern that with more than 70 per cent of the total capitalisation of the stock exchange in foreign hands, Hungarians have too little control over their own economy. Worry is focused on the investment funds, some of which are accused of having difficulty telling one central European country from another. "Vsclav Klaus is forced out in Prague, and they think that is reason to be worried about Budapest. It's ridiculous," said one disgruntled commentator.

According to Erika Schalkammer, head of the stock exchange's trading departmeot, there has been considerabls emphasis recently on encouraging domestic investment in the belief that "the involvement of more domestic small investors will make the market safer and less volatile." With elections due next May, the government also believes that involving more ordinary Hungarians in the privatisation process is a good idea politically.

When s large tranche of shares of Matav, the telecoms gronp, were sold in November – by far the biggest share sale in Hungary to date – 6 per cent of equities were eventually placed in the retail category as 168,000 Hungarians bought shares. The original offer was three times oversubscribed. Small investors were ancouraged by new rules which allowed them to pay for their shares in instalments.

The stock exchange has made great strides in what Mr Jarai calls "all the small things tbst go on behind walls but which make the exchange work". The turbulence in November "was a very big test of our computer and settlement systems for example, and they worked very well," he adds.

Traders say that Keler, the local depositary, is also much improved and the settlement system is now quite sdequate. There are still challenges ahead, however, including the move to a fully dematerialised environment and the right of settlement houses to make accounts in foreign currencies.

Ms Schalkammer admits that getting Hungarian companies to accept stock exchange rules of transparency and disclosure is not always easy: "For 40 years, company accounts were virtually secret, and companies and individuals spent much of their time hiding from the state," she says.

But Hungarian officials stress that Budapest is ahead of some other central European capital markets and claim that the strictness of its rules gives it an advantage in attracting foreign investment: "Category A companies have to give quarterly reports; smaller companies twice a year, and we allow no deviatinn from that," says Ms Schalkammer.

To change companies' mentality takes time, educatinn and younger people with both the enthusiasm to make the market work and understanding of why such rules are necessary to make it work. "Fortunately, Hungary has many such young people," she says.

Mr Jarai hopes that recent technical and regulatory improvements will lead to more Hungarian shares being traded in Budapest rather than on foreign exchanges. Three years ago, about 60 per cent of shares were traded in Budapest but this has fallen to 56 per cent, due to lack of liquidity, less information and lower technical sophistication.

Developing the rules and procedures for the Budapest stock exchange has involved a clash between Anglo-American and continental European models, but the balance has come down firmly on the Anglo-Saxon side. Mr Jarai says: "I am a bit of a eurosceptic over this. My view is that the world of investment is dominated by the Americans, and they tend to buy shares where the rules are similar to those of the US."

The Budspest exchange had s different origin from other east European exchanges which were fnrmed by governments in the early 1990s, after the fall of communism. The Budapest exchange, by contrast, was founded in 1988 by forward-looking state managers and officials, says Ms Schalkammer. "First, we had market activity and then we developed the exchange. As an organisation we have always been initiators," she says.

"Because we had to create things from scratch, we are ahead of some EU countries both in regulations and technology. That is the case in the stock exchange and some banks which have been able to leapfrog ahead. It is also true in vital areas such as pension reform, where some EU countries could learn from us, rather than the other way round," says Mr Jarai.

POLITICS • by Anthony Robinson

Electorate may cold-shoulder fractious opposition

Opposition parties may have left it too late to establish their credibility

One of the golden rules of democratic, multi-party politics is that opposition parties do not win elections: ruling parties lose them. Six months before voters go to the polls at the end of the current four-year parliamentary term in May, the strength of this adage is very much apparent in the world of Hungarian domestic politics.

Despite the deep unpopularity of the Hungarian Socialist party-dominated coalition government for much of the past four years, the divided and fractious opposition parties failed to establish a credible alternative leader or forge the kind of alliances required to establish credibility as an alternative government coalition.

They have almost certainly left it too late to retrieve the situation. As the economy strongly recovers, the opinion polls show a steady recovery in support for the Hungarian Socialist Party which re-emerged as the largest party in the 1994 elections, sweeping aside the leaderless and divided Hungarian Democratic Forum. This was the conservative alliance led by the late Jozsef Antall which won the 1990 elections but is now reduced to a squabbling shadow of its former self.

The HSP won 33 per cent of the votes in the first round of the 1994 elections and ended up with 54 per cent of the seats in the 386-seat parliament: an absolute majority. It was unwilling to govern alone, however, and the party, led by Gyula Horn, offered important cabinet and key committee positions, including the interior ministry, to the liberal Association of Free Democrats. They came second with nearly 20 per cent of the vote and 18 per cent of the seats.

After much soul-searching the Free Democrats, who doubted their powers of survival in opposition, accepted the role of junior coalition partner. This gave the socialists the broader parliamentary and national support they craved. Apart from their central government positions, the Free Democrats also control several Hungarian cities, including Budapest, the capital. Gabor Demszky, the mayor, is one of the most popular politicians in the country but is more interested in running the city than seeking national prominence.

Whether the Free Democrats will gain or lose from their association with the Socialists is one of the big question marks hanging over next year's election results. The party traditionally enjoys support from intellectuals and professional people. It is capable of running a skilled election campaign with strong media exposure and claims credit for having pushed the Socialists to adopt the liberal economic and social policies which are starting to prove so successful.

Having shifted so far to the centre, however, the HSP is now seen by many middle class professionals and business people as a much more reformist and respectably democratic party than it seemed in 1994.

Despite their uneasy marriage in government, the HSP and the Free Democrats are standing separately and will be fighting against each other for votes and seats. But they may join forces again after the election.

This election could also decide the fate of Fidesz, the Federation of Young Democrats. The party, which is aimed at the younger generation, is led by Viktor Orban, the now youngish rather than young, but still most charismatic of Hungarian politicians. The trouble with Fidesz is that everybody likes them but few people take them seriously enough to vote for them.

This has not been made easier by the ambiguity of the party's pre-electoral manoeuvring. On one hand, Mr Orban is setting himself up as the leader of the anti-socialist opposition.

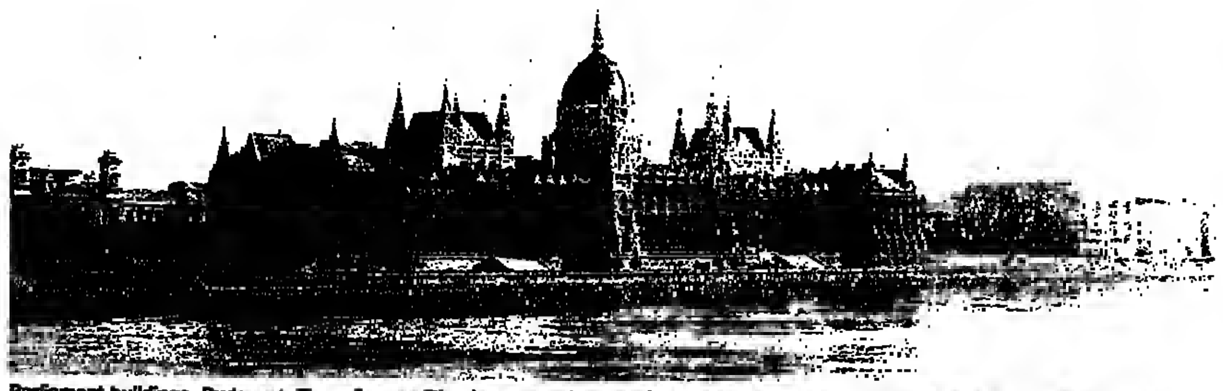
On the other hand, there is widespread suspicion in Budapest political and intellectual circles that Fidesz is desperate to get into power, no matter what it says during the elections. At the end of the day, the suspicion is that Fidesz would be willing to get into bed with the Socialists after the election if that was the only way of leaving the frustrating obscurity of opposition.

Another avowedly anti-socialist party is the Smallholders Party led by Josef Torgyan. The Smallholders flourished on a diet of vitriolic attacks on the coalition and populist pledges of lower taxes as voters tightened their belts and cursed the Socialists for reneging on their electoral promises.

Now that the economy is on the mend, however, passions are cooling and the well-oil Socialist party electoral machine can be expected to garner its share of once disaffected voters come polling day.

Meanwhile the Smallholders, well supported in the small towns and rural areas where suspicion of foreigners and the European Union is strongest, recently forged an electoral alliance with the hopelessly divided Christian Democrats. The Christian Democrats fear that without such a tactical alliance they are unlikely to earn enough votes to get into parliament at all.

This is a fate which also haunts other fringe parties from the ultra-nationalist Hungarian Justice and Life Party, headed by Istvan Csurka, the writer, to the rump communist Workers Party led by Gyula Thuermer.



Parliament buildings, Budapest: The ruling coalition has spent the past three years carrying out unpopular policies Picture: Anthony Robinson

INTERVIEW WITH GYULA HORN • by Anthony Robinson and Anatol Lieven

Gain was worth the pain

'A recent poll shows that our supporters believe that the sacrifices were worth it'

In his large office beside the Danube in the gilded mock-Gothic pile of the Hungarian parliament last month, a confident and relaxed prime minister reflected on the opening question of whether he expected punishment or praise from the electorate next May.

"People criticise us now, and they'll continue to criticise us if we are re-elected in 1998," he said. "No one who goes into politics should expect gratitude. People have suffered. No question about it. It is we who should thank them for putting up with us and ensuring that the government is still standing."

After three years in the doldrums, opinion polls show that voters are switching back to the Hungarian Socialist Party (HSP) and morale within the party itself is also rising. "A recent inner party poll of 37,000 members shows that our supporters believe that the sacrifices were worth it. They urge us to persevere with our policies for stable growth and not dissipate the results," Mr Horn reveals.

"It is important to remember that our supporters are mainly poorer people; those who suffered the most from all the cut-backs. The party mood shows understanding that the tough policies were necessary and will ease our entry into Nato and the EU. But we would have had to take them anyway in the national interest or face national bankruptcy."

Critics say Mr Horn remains an old-style communist at heart, a man who leads from behind and is too ready to sacrifice ministers and officials if that is required to take the heat off himself and the government. They cite as a classic example the way an official in the privatisation agency, and then the privatisation minister, were sacked last year without a thorough investigation into allegations of suspected pay-offs to party funds.

"It is true that several ministers, including the finance minister, could not take the strain and resigned. But key ministers – the foreign minister, the defence and interior ministers for example – have stayed the course. Meanwhile, I am getting ready to meet the fourth Polish prime minister since I took office," Mr Horn says.

"The last years have been stressful and I feel rather nostalgic about some of my former cabinet colleagues. But far more than in Poland and the Czech Republic, we implemented a tough financial stabilisation programme while simultaneously carrying out difficult structural and institutional reforms of the social security, education, health and pensions systems and modernising the administration of the state. Not all could stand the strain."

With a flash of pride and a hint of passion he continues: "No other country has carried out these things simultaneously as we have. Now we are seeing the results. This year is the first in which living standards have risen after falling for six of the last seven. At the same time, we have curtailed many entrenched privileges and are transforming a state which used to be the almighty re-distributor of wealth and favours.

"Many Hungarians and other central Europeans still hanker after the 'mame state', and powerful special interest groups reflect this. But Tony Blair is saying similar things in Britain about the need to transform the state and I have been impressed by his ideas of a state which concentrates on doing those things which only the state can do. I agree with him."

Mr Horn links a welcome for the modernising and more Euro-friendly attitude of the UK's new Labour government to reaffirmation of the government's passionate desire to guarantee Hungary's own future stability, prosperity and security through full membership of Nato and the EU as soon as possible.

"This is the foundation of our hopes. The next five years will be decisive for the fate of the country," he says. He makes no secret that his ambition is to be still there, in the prime minister's office, steering the country through.

PROFILE OF GYULA HORN, PRIME MINISTER • by Anthony Robinson

Great political survivor

Horn has become more at ease with his new role as an economic and political reformer

Gyula Horn, prime minister and leader of the Hungarian Socialist Party (HSP), is the great survivor of Hungarian politics. The odds are rising that he will pull off another extraordinary election victory in six months' time when voters deliver their verdict on four years of Socialist and liberal Free Democrat coalition rule.

The ruling coalition, after being forced into a policy U-turn in the spring of 1995 to avoid being sunk by a Mexican-style debt and currency crisis, has spent the past three years carrying out deeply unpopular policies diametrically opposed to those of gradual and painless reform pledged by the Socialists during their 1994 election campaign.

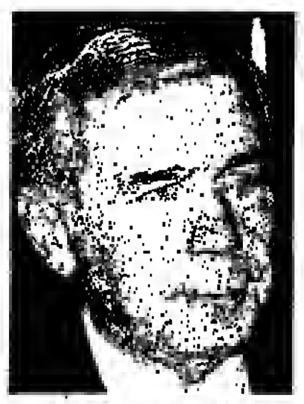
The gain for such pain, however, becomes clearer by the day as a rapidly expanding economy churns out exports against a background of rising foreign and domestic investment and higher productivity and incomes.

Mr Horn gives the impression of a man who embarked rather reluctantly on a difficult and largely uncharted path in 1995, obeying his political instincts rather than his rooted beliefs. But he has become more confident and more at ease with his new identity as an economic and political reformer as the evidence strengthens that the unfamiliar medicine of market-orientated policies is improving Hungary's financial health. The U-turn began with a blunt warning by two senior US officials early in 1995 that Hungary was heading for a precipice. Washington was concerned that a Mexican-style debt crisis in Hungary would further complicate US and Nato efforts to bring peace to Bosnia and other parts of neighbouring former Yugoslavia.

Mr Horn was told that only quick and drastic action could head off a crisis which would destroy Hungary's chances of entering Nato and the EU in the first round. So he brought in Lajos Bokros as finance minister and Gyorgy Suranyi as president of the National Bank. They quickly drew up a tough package of devaluation and tax increases and spending and subsidy cuts deliberately designed to depress domestic spending and shift resources to export and debt reduction.

Mr Horn swallowed hard as Socialist sacred cows were sacrificed. But, with more than three years to go before the next elections, he put his unwavering support behind the stabilisation programme. He ignored protests from party conservatives and the trade unions and injected new urgency into the drive for rapid privatisation, foreign investment and banking and other institutional reform.

To his surprise, the act of following market-orientated policies has liberated the government from many worries by taking the bulk of the economy, including the banks, out of state hands. Furthermore, the new wealth created is starting to provide the financial resources needed to build the kind of modern and affordable health, education and social security systems which the Socialist party and voters favour but which the old state systems signally failed to deliver.



Horn: sacred cows sacrificed

It has been an extraordinary on-the-job re-education for a man who was born in 1932 and received his higher education in Marxist economics and finance at Rostov on the Don in Stalin's Russia of the 1950s – the prelude to a lifetime of involvement in state and party work. In 1956, as a 24-year-old communist, he was on the Soviet side of the barricades in the fight against "counter-revolution" as Moscow called the attempt by Hungarian nationalists to break free of Moscow's grip.

The reward for his communist loyalty came three years later when in 1959 he began a 30-year dalliance with foreign affairs as an attache at the Soviet relations department of the Hungarian foreign ministry. This was followed by diplomatic postings to Bulgaria and Yugoslavia. In 1969, a year after the Warsaw Pact invasion of Czechoslovakia, he became head of international relations at communist party headquarters in Budapest where he stayed for 15 years.

As the party divided in the 1980s between supporters of Janos Kadar, the ageing and cautious party boss, and reformers such as Miklos Nemeth, Mr Horn sided with the reformers and became foreign minister. While most of the reformers went abroad or into business and finance after the revamped socialist party's electoral defeat in 1990, Mr Horn took on the thankless task of leading the party in opposition.

Given Mr Horn's background, the party's "go easy with reform" line in the 1994 election campaign was probably not quite as cynical as it looked to those who understood better the objective difficulties of the transition process. The looming constraints posed by a rapidly growing domestic and foreign debt burden were also not so obvious then as they became after the elections.

Mr Horn spent the first nine months in office looking for easy options and agonising over "selling off the family silver". At the end of 1994, he blocked as "too cheap" the sale of a group of state hotels to a US investor. But when the Mexican crisis suddenly revealed the precariousness of Hungary's financial position, he rose to the occasion.

Foreign investors have already voted on his policies with their pocket books, pouring billions of dollars into the economy. In May it will be the voters turn to give their verdict on his record.

PROFILE Gedeon Richter

Old Soviet market at core of sales

The dream of recovering the old Soviet market is one which continues to haunt many a Hungarian and western businessman.

Gedeon Richter, one of Hungary's leading pharmaceutical groups, is a prime example. The company, which is majority-owned by western institutional investors but managed mainly by Hungarians, has kept the former Soviet market at the core of its sales and future development strategy.

Under the old Comecon division of labour, Hungary was allocated a disproportionately large share of drugs production for the huge Soviet market.

The market slumped as the Soviet Union disintegrated but the share of Richter's production going to the CIS has risen from 21 per cent in 1992 to 29 per cent in 1996.

Overall sales rose from $166m in 1995 to $247m last year when profits reached $45m.

Richter concentrates on selling to the 70 per cent of the Russian population who can just afford medicines but not the more expensive western-produced brands, according to Michael Stevens, the finance director.

Richter has largely switched from creating its own medicines to producing "branded generics." These are copies of standard drugs produced elsewhere but marketed under Richter trade marks.

In response to the collapse of the state health system in the former Soviet Union, Richter has greatly strengthened its own distribution network. It now has 31 inventory locations throughout Russia and is building its own factory south of Moscow, as a joint venture with local Russian businessmen.

It will start with a packaging operation next year and move up to making finished products from 1999.

The company is also looking for joint ventures and greenfield sites in Ukraine, Romania and Slovakia. It is joining a small but growing of Hungarian companies acquiring production facilities in the former socialist countries.

Another example is Zalakeramia, a ceramics company, which this year acquired substantial plants in Croatia and Romania.

Mr Stevens believes that Richter is successful in Russia because as the state health system crumbled people have had to buy their own medicines.

They tend to opt for those brands which are known and trusted – "if they don't know, they'll ask the chemist for advice – just like Britain in the 1950s," he adds.

But Richter does not intend to restrict itself to the former Soviet bloc. Although sales to North America have dropped in recent years, it is now building a new plant in Budapest to produce pharmaceuticals up to exacting American standards – whereas up to now it has just produced chemicals for the US market.

"When this plant is finished we will be potentially world suppliers, just as we are already the leading supplier in eastern Europe and the CIS, a market of 400m people," says Mr Stevens.

Anatol Lieven

AGRICULTURE • by Anatol Lieven

EU membership issue casts a shadow

Most Hungarians are sceptical about the EU and many farmers are explicitly hostile

In the corner of a barn in the west Hungarian village of Monsonszolonok lay a huge heap of barley, with a few strips of plastic sheeting protecting it from the chilly damp seeping in from outside, where ancient communist-era machinery rusted quietly in the rain.

Janos Kranicz, chairman of the local co-operative, said gloomily: "This is best quality barley, but soon it will be fit only for cattle feed. It takes time to find a market for it, and we have nowhere proper to store it. So most of it will be lost."

Hungary this year produced more than 13.5m tonnes of grain, but wet weather and poor storage mean that less than half of it is fit for human consumption.

As Frigyes Nagy, the agriculture minister, admitted: "the government is embarrassed by this rich harvest."

The government allocated Ft700m for extra storage facilities, but that is a very small sum compared to the scale of the problem.

Agricultural experts say that because of its location, far from seaports, Hungary should concentrate on boosting high quality agricultural exports to western Europe. Hungary consistently runs a large surplus in its agricultural trade with the European Union – but officials and farmers alike say that they could do much better if they had better infrastructure.

The subject of Hungarian agricultural reform is becoming increasingly dominated by the question of accession to the EU; as with most other applicants in the past and probably the future, it is likely to be one of the most contentious fields both in negotiations with the European Commission and in internal politics.

This year, the only partially violent demonstrations in Hungary have been by protesting farmers, and while neither was about the EU as such, they could be a foretaste of more to come as the effects of future membership become more apparent to farmers. In contrast to their enthusiasm for Nato opinion polls show that most Hungarians are sceptical about the EU, and many farmers are explicitly hostile.

The first demonstrations, in February and March, were against government plans to impose taxes and social security fees on small producers, among them farmers. "If we had to pay any more taxes, we would simply go bust," Mr Kranicz said.

The second wave of protests has been against a proposed law allowing businesses, including foreign-owned ooes, to own agricultural land. At present, only private individuals can do so and everyone else has to rent.

The government argues that land sale is essential to raise desperately needed capital for investment.

The opposition, and most farmers, have said that because Hungarian land prices are barely a tenth of the EU average, allowing foreign ownership would set off an orgy of foreign buying and speculation, with much land being held unused for sale when prices rise after EU accession.

Opinion polls suggest that a majority of farmers share this view.

A second argument is that sooner or later Hungary will have to equalise its rules for Hungarians and foreigners to meet EU requirements. To this, Bela Glattfelder, an MP for the liberal opposition party Fidesz, replies: "the way we read it, the EU doesn't want Hungarian agriculture fully to integrate into that of western Europe even after we join. It looks as if they want to keep trade barriers for some products, as well as restrictions in other fields like movement of labour."

Mr Glattfelder added forcefully that: "In these circumstances, it is perfectly legitimate for us to keep special rules of our own, at least as a bargaining counter." He and many farmers such as Mr Kranicz argue that Hungary must maintain a ban on foreigners owning land until Hungarian prices reach at least 70 per cent of the EU average.

The threat of the EU making special rules for new applicants is one that greatly concerns the Hungarian government.

According to Laszlo Vajda, deputy agriculture minister, "A key question is whether there will be a transition period after accession, especially in the field of agriculture. There is nothing about this in Agenda 2000, but in discussions we have gained the impression that this would mean the EU keeping border and trade controls against Hungary, as well as price equalising measures and distinctions in levels of subsidy."

Mr Vajda went on, "This would be second-class status in effect, and it makes us anxious. On the other hand, it is true that meeting EU norms by the year 2002 will be a huge task for us."

EU diplomats say that Hungary is already well up to EU standards in the fields of health and safety and also has some of the most progressive officials in central Europe.

However, as Mr Vajda admits, Hungary is far behind institutionally, and at present could not distribute EU subsidies properly even if these were available.

A key precondition for such measures is the creation of a comprehensive land register. But this is not as easy as it sounds.

Many farmers object to telling the government how much land they own, how they farm it, and how many people they employ, precisely because they know that it would then be used as a basis for taxation, which up to now they have largely evaded. Much of Hungarian agriculture operates in the grey market.

As both EU and Hungarian officials know, none of this is likely to be easy. As one of them said: "You know the amount of trouble farmers can cause in EU countries. Well, just imagine if we were like Hungary. That means three times as many farmers, with twice the political weight."

INFRASTRUCTURE AND UTILITIES • by Anatol Lieven

Progress – but still a long way to go

The question of how rigidly the EU norms are imposed will be a contentious issue

Over the next five years, Hungarian policy towards the development of infrastructure and utilities is going to be largely driven by the need to meet European Union conditions for accession.

Lending and assistance from EU institutions such as the European Investment Bank (EIB) and the Phare programme is now increasingly aimed at helping Hungary and the other applicants adopt the *acquis communautaire* – the rules and obligations linked to the single market and wider EU membership. Hungary has made greater progress than its neighbours on both improvement of services and environmantal protection, but still has a very long way to go. The question of how rigidly the EU oorms will be imposed on Hungary is likely to be one of the most contentious issues in the accession negotiations.

Dr Karoly Lotz, minister for transport, communications and water, says that the most serious pollution problem is vehicle emissions. On sewage and water treatment, "developments are in the pipeline, partly thanks to privatisation and foreign investment. But it is obvious that given the level of our budget, we cannot possibly reach the acquired level by 2002, so we will need concassions from the EU side".

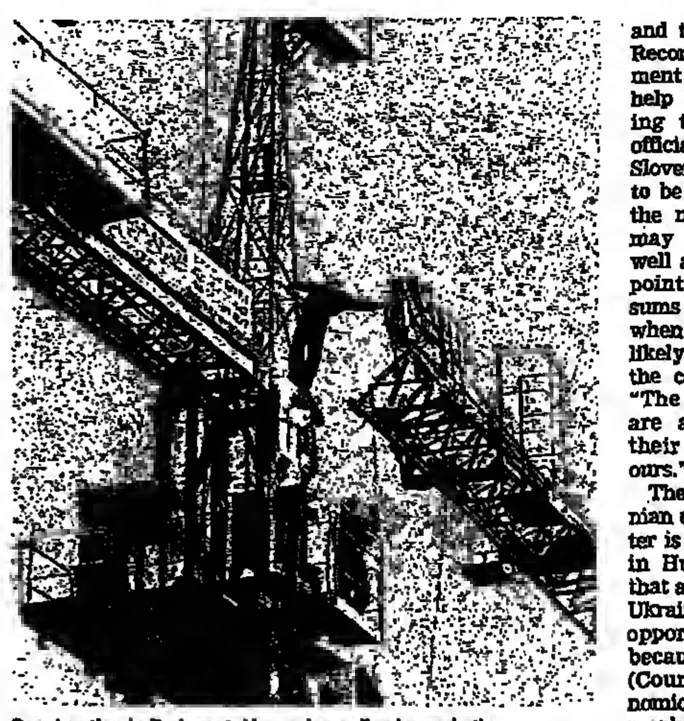
Dr Lotz stressed: "It is possible to reach total EU conformity in environmental standards in eight years, but it will cost a great deal of money. We estimate that these programmes will cost the central budget around Ft25bn every year. This year, the sum allocated in the budget is about Ft10bn. The difference will have to be made up by outside assistance and loans. And after we become an EU member, we also hope for help from the EU structural fund".

EU diplomats in Budapest say that Hungary has already achieved EU standards in its regulations concerning water management and sewage; the problem is implementation. And the same is true of air pollution. In the negotiations, the EU side is likely to aim at about 70 per cent compliance with EU norms – although even this may be optimistic, because there are some EU states such as Greece which have still not managed 60 per cent compliance.

The privatisation of water and power utilities has gone further in Hungary than anywhere else in the former communist bloc, and foreign companies have bought an important share. In November, Compagnie Générale des Eaux and Berliner Wasserbetriebe won the tender for control of Budapest's sewerage system, for a so far undisclosed price.

However, the efficiency of the power generating sector is still well below west European standards. Published figures show network losses at between 10 and 16 per cent, compared to 3 per cent in Germany.

Hungary's national electricity distributor, MVM, has announced two tenders for a total of 2,000MW of new generating capacity, to be constructed by 2006. Thirty companies have made technical bids, and the results are expected in the middle of next year.



Construction in Budapest: Hungarian policy towards the development of infrastructure and utilities is going to be driven by the need to meet European Union conditions Picture: Kastor Eddy

Interest therefore remains high, despite frequent complaints that the government has damaged profitability by not increasing electricity prices to levels which foreign investors believe they were promised.

The bulk of Hungarian generating capacity is now in foreign hands, with Tractebel, RWE, AES and other international giants all represented. Powergen of the UK is investing $251m on a new power station on industrialised Csepel Island, just down the Danube from the heart of Budapest. Powergen has signed a 20-year power purchase agreement (PPA) with MVM, including an automatic formula linked to world prices and forint depreciation which western investors hope will be the model for future agreements.

Powergen's experience at Csepel illustrates the enormous opportunities for investment and improvement in this sector. Powergen's existing 400MW coal-burning power station at Csepel used to employ 600 people. When the new station comes on line in the year 2000, it will employ 50 people but generate 385MW.

The development of Hungary's road network reflects the new geopolitical and economic orientation of the country. One motorway, the M1, has already been constructed. It links Budapest to Vienna. Three more are planned to connect with the Ukrainian, Romanian-Yugoslav and Croatian-Slovene borders by 2007 and the EIB and the European Bank for Reconstruction and Development (EBRD) are expected to help finance them. According to transport ministry officials however the M7 to Slovenia and Italy is likely to be completed by 2004 but the motorways to the east may not be finished until well after 2007. "There is no point in paying enormous sums for road construction when the level of actual or likely traffic does not justify the cost," one official said. "The Slovenes and Croats are also rapidly building their own roads to join ours."

The failure of the Ukrainian economy to develop faster is a source of frustration in Hungary. Many believe that an economic recovery in Ukraine would provide great opportunities for Hungary because of old Comecon (Council for Mutual Economic Assistance) links and marketing networks, and geographical proximity.

Faster growth in the Ukraine would also help Hungary's most depressed region, the rustbelt north-east around Miskolc and Debrecen near the Ukrainian border. This region has been badly hit by the collapse of Comecon, which contributed to the steep decline of its heavy industries.

As more and more Hungarian industry develops west of the Danube closest to the EU countries which are its main markets and source of supply, local communications improve. But Hungarian officials see a danger that the north-east could become trapped in a permanent cycle of disadvantage, with poor development and poor infrastructure feeding off each other, repeating the experience of depressed regions in more developed countries, particularly Italy.

PROFILE Videoton

Striking example of switch from arms manufacturing

Hungary's surge in export-led growth has been due above all to its success in attracting the multinationals. But the fortunes of Hungary's own large manufacturers, once among the most advanced in the Communist bloc, have been considerably more varied.

Some have survived by becoming suppliers to the multinationals. Others have succeeded in keeping or expanding their old niches. Some have gone under altogether, and some, are hanging on by their fingernails.

Among those which have become sub-contractors to the multinationals, perhaps the most successful is Videoton. The company is also a striking example of the transformation of a company centred on the military industry.

From the start it concentrated on arms prodoctioo - as a munitions plant before the secood world war. The great banks of earth built to limit the blast from an accidental explosion are still in place around the huts of abandoned munition production lines at the company's main plant just outside the western Hungarian city of Szekesfehervar.

Once a Hungarian flagship, and a key supplier of electronics and computers to Warsaw Pact armies, Videoton still lends its name to one of Hungary's leading football teams. It formed its first joint venture with a western company in 1984, as Hungary led the way among the communist countries in opening to the West.

But its troubles began as early as 1988, when Soviet President Mikhail Gorbachev's cuts in military spending led to drastically reduced orders. It went into liquidation in 1991, and was bought by a consortium led by Gabor Szeles, one of Hungary's most dynamic businessmen.

Since then, in a dramatic transformation, Videoton has become a leading sub-contractor for Philips, Panasonic, BMW, Alcoa and other multinationals with plants in the vicinity.

Antal Szabo, a manager at the Szekesfehervar plant, says: "We don't want the high cost and risk of marketing our own products. Our principle now is to go for low-risk production until we are stronger, financially and technically. But in 10 or 15 years, I hope we will be making our own products again."

Mr Szabo said that although Videoton is no longer producing anything for the former Soviet market "we hope to set up a factory in Russia or Ukraine to manufacture simple car parts when their economies pick up."

Anatol Lieven